Subsea 7 S.A. Announces Third Quarter 2013 Results

Luxembourg – 18 November 2013 – Subsea 7 S.A. (the 'Group') (Oslo Børs: SUBC) announced today results for the third quarter which ended on 30 September 2013. Unless otherwise stated, the comparative period is the nine months ended 30 September 2012. The Group's reporting segments are set out in Note 6 'Segment information'.

	Three Months Ended		**Nine Months Ended**	
For the period (in $ millions, except Adjusted EBITDA margin, share and per share data)	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
Revenue	**1,564**	1,744	**4,711**	4,686
Adjusted EBITDA[1]	**359**	318	**739**	869
Adjusted EBITDA margin[1]	**23.0%**	18.2%	**15.7%**	18.5%
Net operating income	**269**	228	**464**	628
Gain on sale of NKT Flexibles	**–**	23	**–**	244
Net income	**160**	194	**278**	698
Backlog	**11,800**	8,088	**11,800**	8,088
Cash and cash equivalents	**953**	587	**953**	587
Borrowings	**1,406**	905	**1,406**	905
Earnings per share – in $ per share				
Diluted	**0.42**	0.50	**0.77**	1.86
Adjusted diluted earnings per share[1]	**0.42**	0.44	**0.77**	1.21
Weighted average number of common shares	**398.0m**	372.3m	**373.7m**	375.3m

1 For explanations and a reconciliation of Adjusted diluted earnings per share and Adjusted EBITDA and Adjusted EBITDA margin please refer to Note 9 and 10 to the Condensed Consolidated Interim Financial Statements included herein. Adjusted diluted earnings per share excludes the gain on sale of NKT Flexibles.

Jean Cahuzac, Chief Executive Officer, said:

'We have delivered good financial results and are on track to deliver full-year Adjusted EBITDA in line with consensus expectations. These results reflect high offshore activity, project phasing in West Africa and high vessel utilisation in the North Sea.

Adverse weather conditions have continued to hamper progress on the Guará-Lula NE project but we believe that the full-life project loss previously announced in June remains appropriate. We continue to be satisfied with our performance in executing our remaining project portfolio.

We have achieved a record backlog of $11.8 billion which includes the award of three 5 year contracts for new-build PLSVs in Brazil. We remain focused on building quality backlog with the appropriate risk profile.'

Operational highlights and outlook

Good progress was made on a number of projects in the North Sea including Otter, Knarr and Laggan Tormore. Engineering and procurement continued for Martin Linge, which will move into the offshore phase in 2014. The quarter benefited from strong project execution and high vessel utilisation.

In Africa, the quarter benefited from high activity levels and the timing of settlements with clients. Offshore Angola, *Seven Borealis* completed its main offshore workscope on CLOV, a project executed as expected with a low margin. Good progress was made on the engineering and procurement for the Lianzi SURF project which will move into the offshore phase in the second part of 2014. Offshore Nigeria, strong execution on the MPN Trunk project continued and good progress was made on the engineering and procurement for the Erha North project. *Seven Borealis* mobilised to Mexico during the quarter and has subsequently completed the Line 60 project.

In Asia, *Sapura 3000*, owned by the SapuraAcergy joint venture, successfully completed the offshore scope of the Gumusut project offshore Malaysia. In Australia, progress was made on the Gorgon Heavy Lift and Tie-Ins project with offshore installation scheduled to commence in Q4 2013.

In Brazil, we continue to collaborate closely with Petrobras to complete the challenging offshore phase of the Guará-Lula NE project. In October 2013, we successfully renewed the contracts for *Seven Mar* and *Seven Condor*, which completes the contract renewal programme for our existing fleet of five pipelay support vessels.

The level of tendering continues to be good in the North Sea but has moderated elsewhere as delays in project awards remain a feature of the industry. Some North Sea operators have indicated that rising costs could result in the award of new projects being postponed. Although we have not seen a clear pattern develop, this is something which requires monitoring as it could have a short-term impact on activity levels. The fundamentals of our business have not changed and we remain positive about the medium and long-term market prospects.

Conference Call Details

Conference Call Information

Lines will open 15 minutes prior to conference call.

Date: 18 November 2013

Time: 12:00 UK Time

Conference ID: 87213476

	Conference Dial In Numbers
United Kingdom	0800 694 0257
United States	1 631 510 7498
Norway	2156 3013
International Dial In	+44 (0) 1452 555 566

Replay Facility Details

A replay facility (same Conference ID as above) will be available for the following period:

Date: 18 November 2013
Time: 17:00 UK Time
Date: 2 December 2013
Time: 12:00 UK Time

	Conference Replay Dial In Numbers
International Dial In	+44 (0) 1452 550 000

Alternatively, a live webcast and a playback facility will be available on our website www.subsea7.com

For further information, please contact:

Paul Gooden

Subsea 7 S.A.
e-mail: paul.gooden@subsea7.com
T: +44 (0) 20 8210 5568

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Special Note Regarding Forward-Looking Statements

Certain statements made in this announcement may include ‘forward-looking statements’. These statements may be identified by the use of words like ‘anticipate’, ‘believe’, ‘estimate’, ‘expect’, ‘intend’, ‘may’, ‘plan’, ‘forecast’, ‘project’, ‘will’, ‘should’, ‘seek’ and similar expressions. The forward-looking statements reflect our current views and assumptions and are subject to risks and uncertainties. The principal risks and uncertainties which could impact the Company and the factors affecting the business results are outlined in the ‘Risk factors’ section in the Company’s Annual Report and Consolidated Financial Statements for the year ended 31 December 2012. These factors, and others which are discussed in our public filings, are among those that may cause actual and future results and trends to differ materially from our forward-looking statements: actions by regulatory authorities or other third parties; our ability to recover costs on significant projects; the general economic conditions and competition in the markets and businesses in which we operate; our relationship with significant clients; the outcome of legal and administrative proceedings or governmental enquiries; uncertainties inherent in operating internationally; the timely delivery of ships on order and the timely completion of ship conversion programmes; the impact of laws and regulations; and operating hazards, including spills and environmental damage. Many of these factors are beyond our ability to control or predict. Given these factors, you should not place undue reliance on the forward-looking statements.

Interim Management Report: Financial Review

Third Quarter 2013

Revenue
Revenue for the quarter was $1.6 billion compared to $1.7 billion in Q3 2012.

Adjusted EBITDA
Adjusted EBITDA for the quarter was $359 million, an increase of $41 million or 13% compared to Q3 2012. Adjusted EBITDA margin was 23.0% compared to 18.2% in Q3 2012.

Net operating income
Net operating income was $269 million, compared with $228 million in Q3 2012. This increase was primarily due to:

- an increase of $37 million in the Group's share of net income of associates and joint ventures, with higher contributions from SapuraAcergy and Seaway Heavy Lifting;
- a decrease of $24 million in administrative expenses driven by the absence of integration costs in 2013 and a continued focus on cost control; and
- strong project activity and improved gross profit in the APME, NSC and Brazil territories compared to Q3 2012;

partially offset by:

- decreased gross profit in AFGOM as work was executed on projects bid in prior years at low margins. Q3 2012 gross profit benefited from several projects nearing completion of their offshore execution phases.

Net income
Net income was $160 million, compared to net income of $194 million in Q3 2012. The decrease in net income was primarily due to:

- the recognition in Q3 2012 of a $23 million gain on the sale of NKT Flexibles; and
- foreign currency exchange losses of $38 million in Q3 2013 compared with losses of $3 million in Q3 2012. The loss in Q3 2013 was mainly driven by the weakening of the US dollar compared to the Group's major trading currencies. This resulted in foreign currency exchange losses on short-term intercompany balances and on other operating assets and liabilities;

partially offset by:

- the increase in net operating income, as described above.

The underlying effective tax rate for the quarter is 43%, based on a full-year forecast underlying rate of 47%. The net effective tax rate for the quarter is 27%, which reflects the benefit of certain discrete items recorded in the quarter. Discrete items include changes in tax provision estimates and contingencies.

Earnings per share
Adjusted diluted earnings per share was $0.42 compared to adjusted diluted earnings per share of $0.44 in Q3 2012, based on a weighted average number of shares of 398 million and 372 million shares respectively, with all the convertible loan notes being dilutive in Q3 2013.

Nine months ended 30 September 2013
The comparative period ('2012') is the nine month period from 1 January 2012 to 30 September 2012.

Revenue
Revenue for the nine months ended 30 September 2013 was $4.7 billion (2012: $4.7 billion).

Adjusted EBITDA
Adjusted EBITDA for the nine months ended 30 September 2013 was $739 million, a decrease of $130 million or 15% compared to 2012. Adjusted EBITDA margin was 15.7% compared to 18.5% in 2012.

Net operating income
Net operating income was $464 million (2012: $628 million). Significant movements impacting net operating income included the $300 million increase in the estimated full-life project loss provision recognised in Q2 2013 on the Guará-Lula NE project partially offset by:

- a decrease of $52 million in administrative expenses compared to 2012, mainly related to the release of $21 million of provisions recognised at the date of the business combination in 2011, due to certain legal cases being settled in the Group's favour, and an absence of integration costs of $19 million recognised in 2012; and
- an increase of $84 million in the Group's share of net income of associates and joint ventures mainly attributable to strong contributions from Seaway Heavy Lifting, due to high levels of activity, and SapuraAcergy, as the Gumusut project continued its offshore phase.

Net income

Net income was $278 million, a decrease of $420 million or 60% compared to 2012. The decrease was primarily due to:

- the decrease in net operating income;
- the recognition in 2012 of a $244 million gain on the sale of NKT Flexibles;
- an increase in finance costs of $32 million mainly as a result of the accretion on the 2017 convertible loan notes issued in October 2012 and reduced capitalised interest on assets under construction reflecting the relative stage of completion of major capital projects; and
- foreign currency exchange losses of $41 million in the nine months ended 30 September 2013 compared to gains of $38 million in 2012.

partially offset by:

- an $81 million decrease in the taxation charge compared to 2012. No tax benefit is assumed in respect of the Guará-Lula NE estimated full-life project loss provision due to the tax profile of the affected entities.

Earnings per share

Adjusted diluted earnings per share was $0.77 compared to $1.21 in 2012, based on a weighted average number of shares of 374 million and 375 million shares respectively, with the 2013 convertible loan notes being anti-dilutive in 2013.

Cash and cash equivalents

Cash and cash equivalents were $953 million at 30 September 2013 compared with $1.3 billion at 31 December 2012. The dividend of $0.60 per share related to the year ended 31 December 2012 was paid to shareholders in July 2013.

Net cash generated from operations of $677 million was offset by:

- purchases of property, plant and equipment of $539 million, including the purchase of *Simar Esperança*; the ongoing construction of *Seven Waves,* a pipelay support vessel (PLSV) and *Seven Kestrel,* a dive support vessel (DSV); and the commencement of construction of the three new-build PLSVs;
- the repayment of the $158 million Seven Havila loan;
- a loan of $115 million to the Group's joint venture, Eidesvik Seven, to fund the construction of *Seven Viking,* a Life-of-Field vessel; and
- $199 million of dividends paid to shareholders of Subsea 7 S.A.

Borrowings

Total borrowings amounted to $1.4 billion at 30 September 2013. The reduction during the nine months ended 30 September 2013 of $129 million was largely due to the $158 million early repayment of the Seven Havila loan in Q1 2013, partially offset by accretion on the convertible loan notes.

Territory highlights

Third Quarter 2013

Africa, Gulf of Mexico & Mediterranean (AFGOM)

Revenue was $583 million, an increase of $77 million or 15% compared to Q3 2012. During the quarter there was progress on the CLOV project, offshore Angola, the MPN Trunk and Erha North projects, offshore Nigeria and Pemex Line 60 and Line 67 projects, in the Mexican sector of the Gulf of Mexico. Net operating income was $94 million compared to $125 million in Q3 2012.

Asia Pacific & Middle East (APME)

Revenue was $73 million, an increase of $21 million or 41% compared to Q3 2012. There was significant progress on the Gorgon Heavy Lift and Tie-ins project, offshore Australia, with offshore installation scheduled to commence in Q4 2013. Net operating income was $30 million, compared to $2 million net operating loss in Q3 2012. The improvement was mainly due to a strong contribution from the SapuraAcergy joint venture reflecting the completion of the offshore phase of the Gumusut project.

Brazil (BRAZIL)

Revenue for the quarter was $233 million, a decrease of $105 million compared to Q3 2012. The offshore phase on the Guará-Lula NE project continued during the quarter however lower levels of procurement in Q3 2013 compared to Q3 2012 resulted in a decrease of $91 million in project revenue. In addition, *Kommandor 3000* and *Seven Condor* underwent planned dry-dockings during the quarter. Net operating income was $10 million (Q3 2012: $1 million) largely due to improved PLSV margins.

North Sea & Canada (NSC)

Revenue was $670 million compared to $847 million in Q3 2012 partly due to the cancellation of the Fram project in Q1 2013 and the transfer of *Seven Oceans* to the Brazil Territory. Work progressed during the quarter on the Martin Linge, Knarr and Svalin projects, offshore Norway and the Laggan Tormore and Otter projects, offshore UK. Net operating income was $111 million, an increase of $6 million compared to Q3 2012. Q3 2012 results reflected the execution of certain projects awarded at lower margins.

Corporate (CORP)

Revenue was $6 million (Q3 2012: $1 million). Net operating income was $24 million (Q3 2012: $1 million net operating loss), with the improved results driven by the absence of integration costs and an increased contribution from Seaway Heavy Lifting.

Nine months ended 30 September 2013

Africa, Gulf of Mexico & Mediterranean (AFGOM)
Revenue of $1.8 billion was up $209 million compared with 2012. There was progress on the Block 31 PSVM, CLOV and Lianzi projects, offshore Angola; MPN Trunk and Erha North projects, offshore Nigeria and Pemex Line 60 and Line 67 projects, in the Mexican sector of the Gulf of Mexico. Net operating income was $313 million compared to $332 million in 2012.

Asia Pacific & Middle East (APME)
Revenue was $339 million, an increase of $116 million or 52% compared to 2012. The Santos Fletcher project, offshore Australia and the ONGC G1 project, offshore India were completed during the period. There was significant progress on the Gorgon Umbilical and Gorgon Heavy Lift and Tie-ins projects, offshore Australia. Net operating income was $78 million, compared to $28 million in 2012 reflecting progress on the Gumusut project within the SapuraAcergy joint venture.

Brazil (BRAZIL)
Revenue was $608 million, a decrease of $137 million compared to 2012. Procurement, engineering and project management continued on the Guará-Lula NE project, and offshore operations commenced during Q2 2013. Vessels on long-term service agreements to Petrobras achieved high levels of utilisation. Net operating loss was $305 million (2012: net operating income $4 million). Results were impacted by the $300 million increase in expected full-life loss on the Guará-Lula NE project and by Petrobras notifying the Group of their intention to remove the offshore scope of the UOTE project due to delays they have experienced in obtaining environmental licences.

North Sea & Canada (NSC)
Revenue was $2.0 billion, a decrease of $169 million compared to 2012, reflecting lower vessel utilisation due to the cancellation of the Fram project and the transfer of *Seven Oceans* to the Brazil Territory. In 2013, work progressed on the Terra Nova project, offshore Canada; the Martin Linge, Svalin, Eldfisk Subsea Installation and Knarr projects, offshore Norway, and the Laggan Tormore and B11 projects, offshore UK. Net operating income was $332 million compared to $276 million in 2012 reflecting the expected increase in margins in the North Sea.

Corporate (CORP)
Revenue was $14 million (2012: $7 million). Net operating income was $47 million (2012: net operating loss $12 million), with the improved results driven by the absence of integration costs and an increased contribution from Seaway Heavy Lifting.

Asset Development and Activities

Third Quarter 2013
The Group's investments in Sonamet and Sonacergy continued to be classified as assets held for sale. The partial disposal of the Group's interests in Sonamet and Sonacergy is expected to be completed within 12 months, at which time the businesses will be deconsolidated from the Group's Consolidated Financial Statements and their future results will be reported as associates in 'Share of net income of associates and joint ventures'.

Construction of the pipelay support vessel, *Seven Waves,* continued during the quarter, on schedule and in line with projected cost. Construction of an additional three pipelay support vessels (PLSVs), linked to contracts awarded by Petrobras, commenced during the quarter.

Vessel utilisation during the third quarter was 86%, marginally down from 89% in Q3 2012.

Following completion of its contract with Petrobras, the *Lochnagar* PLSV was sold during the quarter.

Backlog
The Group had a backlog of $11.8 billion at 30 September 2013, an increase of $1.4 billion compared to 30 June 2013. Significant new awards in the quarter included contracts with Petrobras for the construction and operation of three new-build PLSVs and the renewal of the *Normand Seven* PLSV contract.

$9.5 billion of the backlog at 30 September 2013 related to SURF activity, $1.1 billion to Life-of-Field, $0.7 billion to Conventional and Hook-up and $0.5 billion to i-Tech. $1.8 billion of this backlog is expected to be executed in 2013, $4.7 billion in 2014 and $5.3 billion in 2015 and thereafter. Order intake from associates and joint ventures is excluded from backlog.

Since 30 September 2013, contract awards in excess of $1.1 billion have been secured; this includes contracts with Petrobras for the operation of the PLSVs *Seven Mar* and *Seven Condor* and a contract with Tullow Ghana Limited for the TEN project, offshore Ghana.

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Condensed Consolidated Income Statement

(in $ millions, except per share data)	Three Months Ended **30 Sep 2013 Unaudited**	 30 Sep 2012 Unaudited	Nine Months Ended **30 Sep 2013 Unaudited**	 30 Sep 2012 Unaudited
Revenue	**1,563.8**	1,743.6	**4,711.4**	4,685.9
Operating expenses	**(1,269.4)**	(1,429.3)	**(4,158.5)**	(3,833.6)
Gross profit	**294.4**	314.3	**552.9**	852.3
Administrative expenses	**(74.1)**	(98.3)	**(215.4)**	(267.3)
Share of net income of associates and joint ventures	**48.9**	12.2	**126.5**	42.8
Net operating income	**269.2**	228.2	**464.0**	627.8
Finance income	**4.7**	2.4	**18.7**	9.7
Other gains and losses	**(38.0)**	25.8	**(27.5)**	286.9
Finance costs	**(16.8)**	(8.9)	**(58.2)**	(26.2)
Income before taxes	**219.1**	247.5	**397.0**	898.2
Taxation	**(59.5)**	(53.3)	**(118.9)**	(199.8)
Net income	**159.6**	194.2	**278.1**	698.4
Net income attributable to:				
Shareholders of the parent company	**152.1**	184.4	**268.4**	689.5
Non-controlling interests	**7.5**	9.8	**9.7**	8.9
	159.6	194.2	**278.1**	698.4

Earnings per share	**$ per share**	$ per share	**$ per share**	$ per share
Basic	**0.46**	0.56	**0.81**	2.06
Diluted	**0.42**	0.50	**0.77**	1.86
Adjusted diluted[1]	**0.42**	0.44	**0.77**	1.21

1 For explanations and a reconciliation of Adjusted diluted earnings per share please refer to Note 9 to the Condensed Consolidated Interim Financial Statements included herein. Adjusted diluted earnings per share excludes the gain on sale of NKT Flexibles.

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Condensed Consolidated Statement of Comprehensive Income

(in $ millions)	Three Months Ended		Nine Months Ended	
	30 Sep 2013 Unaudited	30 Sep 2012 Unaudited	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
Net income	**159.6**	194.2	**278.1**	698.4
Other comprehensive income				
Items that may be reclassified to the income statement in subsequent periods:				
Foreign currency translation	**153.1**	134.7	**(61.0)**	90.2
Cash flow hedges:				
Net fair value gains	**18.5**	26.0	**8.9**	2.5
Reclassification adjustments for amounts recognised in the income statement	**(3.8)**	2.1	**(4.3)**	3.9
Adjustments for amounts transferred to the initial carrying amounts of hedged items	**–**	4.3	**2.2**	4.8
Share of other comprehensive income/(expense) of associates and joint ventures	**1.4**	(0.8)	**8.5**	0.3
Taxation relating to components of other comprehensive income	**1.6**	(8.3)	**12.7**	(3.7)
Other comprehensive income/(expense)	**170.8**	158.0	**(33.0)**	98.0
Total comprehensive income	**330.4**	352.2	**245.1**	796.4
Total comprehensive income attributable to:				
Shareholders of the parent company	**322.8**	342.0	**235.1**	787.7
Non-controlling interests	**7.6**	10.2	**10.0**	8.7
	330.4	352.2	**245.1**	796.4

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Condensed Consolidated Balance Sheet

As at (in $ millions)	2013 30 Sep Unaudited	2012 31 Dec Audited
Assets		
Non-current assets		
Goodwill	**2,559.3**	2,574.8
Intangible assets	**19.9**	24.4
Property, plant and equipment	**3,987.3**	3,748.3
Interest in associates and joint ventures	**350.5**	223.1
Advances and receivables	**144.2**	47.4
Derivative financial instruments	**21.9**	20.5
Retirement benefit assets	**0.4**	0.3
Deferred tax assets	**34.6**	35.4
	7,118.1	6,674.2
Current assets		
Inventories	**65.6**	59.3
Trade and other receivables	**1,062.2**	1,090.3
Derivative financial instruments	**28.4**	53.5
Assets classified as held for sale	**344.0**	317.6
Construction contracts – assets	**493.5**	541.3
Other accrued income and prepaid expenses	**493.6**	471.0
Restricted cash	**20.0**	–
Cash and cash equivalents	**952.8**	1,287.9
	3,460.1	3,820.9
Total assets	**10,578.2**	10,495.1
Equity		
Issued share capital	**703.6**	703.6
Treasury shares	**(440.7)**	(443.9)
Paid in surplus	**3,878.9**	3,881.8
Equity reserves	**359.2**	359.2
Translation reserves	**(5.8)**	44.0
Other reserves	**(64.8)**	(81.3)
Retained earnings	**1,937.1**	1,861.1
Equity attributable to shareholders of the parent company	**6,367.5**	6,324.5
Non-controlling interests	**49.9**	43.8
Total equity	**6,417.4**	6,368.3
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**907.9**	1,040.9
Retirement benefit obligations	**24.0**	23.4
Deferred tax liabilities	**82.1**	111.6
Provisions	**34.5**	38.2
Contingent liability recognised	**7.2**	27.8
Derivative financial instruments	**11.7**	6.7
Other non-current liabilities	**11.0**	9.0
	1,078.4	1,257.6
Current liabilities		
Trade and other liabilities	**1,659.4**	1,452.0
Derivative financial instruments	**11.6**	31.6
Current tax liabilities	**216.2**	201.1
Current portion of borrowings	**498.3**	494.5
Liabilities directly associated with assets classified as held for sale	**179.2**	167.3
Provisions	**19.3**	11.8
Construction contracts – liabilities	**495.4**	434.1
Deferred revenue	**3.0**	76.8
	3,082.4	2,869.2
Total liabilities	**4,160.8**	4,126.8
Total equity and liabilities	**10,578.2**	10,495.1

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Condensed Consolidated Statement of Changes in Equity

For the 9 months ended 30 September 2013

(in $ millions, Unaudited)	Issued share capital	Treasury shares	Paid in surplus	Equity reserves	Translation reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2013	**703.6**	**(443.9)**	**3,881.8**	**359.2**	**44.0**	**(81.3)**	**1,861.1**	**6,324.5**	**43.8**	**6,368.3**
Comprehensive income										
Net income	–	–	–	–	–	–	268.4	268.4	9.7	278.1
Exchange differences	–	–	–	–	(61.3)	–	–	(61.3)	0.3	(61.0)
Cash flow hedges	–	–	–	–	–	6.8	–	6.8	–	6.8
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	8.5	–	8.5	–	8.5
Tax relating to components of other comprehensive income	–	–	–	–	11.5	1.2	–	12.7	–	12.7
Total comprehensive income	**–**	**–**	**–**	**–**	**(49.8)**	**16.5**	**268.4**	**235.1**	**10.0**	**245.1**
Transactions with owners										
Dividends declared	–	–	–	–	–	–	(199.3)	(199.3)	(3.9)	(203.2)
Share-based compensation	–	–	5.8	–	–	–	–	5.8	–	5.8
Shares reissued	–	3.2	–	–	–	–	–	3.2	–	3.2
Vesting of share-based payments	–	–	(8.7)	–	–	–	8.7	–	–	–
Loss on reissuance of treasury shares	–	–	–	–	–	–	(1.8)	(1.8)	–	(1.8)
Total transactions with owners	**–**	**3.2**	**(2.9)**	**–**	**–**	**–**	**(192.4)**	**(192.1)**	**(3.9)**	**(196.0)**
Balance at 30 September 2013	**703.6**	**(440.7)**	**3,878.9**	**359.2**	**(5.8)**	**(64.8)**	**1,937.1**	**6,367.5**	**49.9**	**6,417.4**

For the 9 months ended 30 September 2012

(in $ millions, Unaudited)	Issued share capital	Treasury shares	Paid in surplus	Equity reserves	Translation reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2012	**703.6**	**(278.5)**	**4,185.5**	**278.6**	**(36.3)**	**(95.6)**	**1,023.7**	**5,781.0**	**51.5**	**5,832.5**
Comprehensive income										
Net income	–	–	–	–	–	–	689.5	689.5	8.9	698.4
Exchange differences	–	–	–	–	90.4	–	–	90.4	(0.2)	90.2
Cash flow hedges	–	–	–	–	–	11.2	–	11.2	–	11.2
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	0.3	–	0.3	–	0.3
Tax relating to components of other comprehensive income	–	–	–	–	–	(3.7)	–	(3.7)	–	(3.7)
Total comprehensive income	**–**	**–**	**–**	**–**	**90.4**	**7.8**	**689.5**	**787.7**	**8.7**	**796.4**
Transactions with owners										
Dividends declared	–	–	(279.7)	–	–	–	–	(279.7)	(19.5)	(299.2)
Shares acquired	–	(200.0)	–	–	–	–	–	(200.0)	–	(200.0)
Share-based compensation	–	–	9.6	–	–	–	–	9.6	–	9.6
Shares reissued	–	30.6	–	–	–	–	–	30.6	–	30.6
Reclassification of actuarial gains and losses	–	–	–	–	–	43.2	(43.2)	–	–	–
Loss on reissuance of treasury shares	–	–	–	–	–	–	(25.3)	(25.3)	–	(25.3)
Total transactions with owners	**–**	**(169.4)**	**(270.1)**	**–**	**–**	**43.2**	**(68.5)**	**(464.8)**	**(19.5)**	**(484.3)**
Balance at 30 September 2012	**703.6**	**(447.9)**	**3,915.4**	**278.6**	**54.1**	**(44.6)**	**1,644.7**	**6,103.9**	**40.7**	**6,144.6**

Subsea 7 S.A.

Condensed Consolidated Cash Flow Statement

(in $ millions)	Nine Months Ended 30 Sep 2013 Unaudited	Nine Months Ended 30 Sep 2012 Unaudited
Net cash generated from operating activities	**677.2**	320.2
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	**8.9**	0.4
Purchases of property, plant and equipment	**(539.3)**	(459.8)
Proceeds from sale of subsidiary	**–**	344.2
Purchases of intangible assets	**(2.4)**	–
Interest received	**18.7**	9.7
Dividends received from associates and joint ventures	**4.4**	2.0
On distribution of joint venture	**0.5**	–
Investments in associates and joint ventures	**(1.4)**	(41.4)
Net cash used in investing activities	**(510.6)**	(144.9)
Cash flows from financing activities:		
Interest paid	**(27.7)**	(17.9)
Proceeds from borrowings	**–**	1.0
Repayment of borrowings	**(158.1)**	(12.2)
Loan to joint ventures	**(115.3)**	(1.2)
Loan repayments from joint ventures	**11.0**	5.0
Treasury share buyback	**–**	(200.0)
Proceeds from reissuance of treasury shares	**1.4**	5.3
Dividends paid	**(202.2)**	(199.4)
Net cash used in financing activities	**(490.9)**	(419.4)
Net decrease in cash and cash equivalents	**(324.3)**	(244.1)
Cash and cash equivalents at beginning of period	**1,287.9**	803.4
Effect of foreign exchange rate movements on cash and cash equivalents	**(6.8)**	(3.5)
(Increase)/decrease in restricted cash balances	**(20.0)**	52.0
Decrease/(increase) in cash balances classified as assets held for sale	**16.0**	(21.2)
Cash and cash equivalents at end of period	**952.8**	586.6

1. General information

Subsea 7 S.A. is a company registered in Luxembourg whose common shares trade on Oslo Børs and over-the-counter as American Depositary Receipts ('ADRs') in the US. The address of the registered office is 412F, route d'Esch, L-2086 Luxembourg. The Condensed Consolidated Interim Financial Statements were authorised for issue by the Board of Directors on 15 November 2013.

2. Basis of Preparation

The Condensed Consolidated Interim Financial Statements for the period 1 January 2013 to 30 September 2013 for Subsea 7 S.A. have been prepared on a going concern basis and in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU'). The Condensed Consolidated Interim Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2012 which have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB and as adopted by the EU.

The Condensed Consolidated Interim Financial Statements are unaudited.

3. Accounting policies

Basis of accounting

The accounting policies adopted in the preparation of the Condensed Consolidated Interim Financial Statements are consistent with the Consolidated Financial Statements for the year ended 31 December 2012.

Interim Financial Reporting and Impairment

In accordance with International Financial Reporting Interpretation Committee ('IFRIC') interpretation 10, the Group shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

The following new standards have been adopted from 1 January 2013:

IFRS 13 'Fair Value Measurement'

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 did not materially impact the fair value measurements carried out by the Group.

IFRS 13 also requires detailed disclosures on fair values. Some of these disclosures are specifically required by IAS 34 and are detailed in Note 18.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to the income statement at a future point in time (for example, exchange differences on translation of foreign operations and net movement on cash flow hedges) will be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and had no impact on the Group's financial position or performance.

Revisions to IAS 19 'Employee Benefits'

The amendments to IAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The impact of these amendments were not significant for the Group as actuarial gains and losses are currently recognised in full in other comprehensive income. The impact on the net benefit expense due to the expected return on plan assets being calculated using the same interest rate as applied for the purpose of discounting the benefit obligation was not significant.

Improvements to IFRSs 2009-2011

In May 2012, the IASB issued the Improvements to IFRSs 2009 – 2011, which contains amendments to its standards and the related Basis for Conclusions. The amendments which could impact the Group are:

- IAS 1 'Presentation of Financial Statements': The difference between voluntary additional comparative information and the minimum required comparative information is clarified. In addition, the opening balance sheet must be presented in the following circumstances: when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the balance sheet.
- IAS 16 'Property, Plant and Equipment': This amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 'Financial Instruments: Presentation': This amendment removes existing income tax requirements from IAS 32 and requires the Group to apply the requirements in IAS 12 to any income tax arising from distributions to shareholders of the parent company.
- IAS 34 'Interim Financial Reporting': Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the Chief Operating Decision Maker and there has been a material change in the total amount disclosed in the Group's previous annual financial statements for that reportable segment.

The impact for the Group was not significant.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in the Consolidated Financial Statements for the year ended 31 December 2012, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that management believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Management makes accounting judgements on the following aspects of the business as described in full in the Consolidated Financial Statements for the year ended 31 December 2012:

- Revenue recognition on long-term contracts;
- Revenue recognition on variation orders and claims;
- Goodwill carrying value;
- Property, plant and equipment;
- Recognition of provisions and disclosure of contingent liabilities;
- Taxation;
- Fair value of derivatives and other financial instruments;
- Share-based payments; and
- Defined benefit pension plan valuations.

5. Seasonality

A significant portion of the Group's revenue is generated from work performed offshore. During certain periods of the year, the Group may be affected by adverse weather conditions such as hurricanes or tropical storms which may cause delays. Periods of adverse weather conditions usually result in low levels of activity.

6. Segment information

For management and reporting purposes, the Group is organised into four Territories, which are representative of its principal activities. The Corporate segment includes all activities that serve more than one Territory. All assets are allocated between Territories. The Group's reporting segments are:

Africa, Gulf of Mexico & Mediterranean (AFGOM)

This segment includes activities in Africa, the US, Mexico, and Central America including fabrication yards in Nigeria, Angola, Gabon and the US.

Asia Pacific & Middle East (APME)

This segment includes activities in Asia Pacific, Australia, India and the Middle East and includes the joint ventures SapuraAcergy and Subsea 7 Malaysia.

Brazil (BRAZIL)

This segment includes activities in Brazil including a pipeline fabrication spoolbase at Ubu. It also includes the GSNC Shallow joint venture.

North Sea & Canada (NSC)

This segment includes activities in Northern Europe and Eastern Canada and includes a pipeline fabrication spoolbase in Vigra, Norway and a pipeline bundle fabrication yard at Wick, Scotland. It also includes the Normand Oceanic and Eidesvik Seven joint ventures.

Corporate (CORP)

This segment includes all activities that serve more than one Territory and includes: management of offshore resources; captive insurance activities; management and corporate services. It also includes the results of the joint venture Seaway Heavy Lifting.

Neither total assets nor total liabilities by segment are regularly provided to the Chief Operating Decision Maker and consequently no such disclosure is included.

6. Segment information (continued)

Summarised financial information concerning each reportable geographical reporting segment is as follows:

For the three months ended 30 September 2013

(in $ millions, Unaudited)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	**582.6**	**73.2**	**232.5**	**669.8**	**5.7**	**1.563.8**
Net operating income/(loss) from operations	**93.5**	**30.2**	**10.4**	**111.1**	**24.0**	**269.2**
Finance income						**4.7**
Other gains and losses						**(38.0)**
Finance costs						**(16.8)**
Income before taxes						**219.1**

For the three months ended 30 September 2012

(in $ millions, Unaudited)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	505.7	51.9	337.7	847.4	0.9	1,743.6
Net operating income/(loss) from operations	125.1	(1.8)	1.3	105.0	(1.4)	228.2
Finance income						2.4
Other gains and losses						25.8
Finance costs						(8.9)
Income before taxes						247.5

For the nine months ended 30 September 2013

(in $ millions, Unaudited)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	**1,780.7**	**338.5**	**608.3**	**1,970.2**	**13.7**	**4,711.4**
Net operating income/(loss) from operations	**312.9**	**77.6**	**(304.8)**	**331.6**	**46.7**	**464.0**
Finance income						**18.7**
Other gains and losses						**(27.5)**
Finance costs						**(58.2)**
Income before taxes						**397.0**

For the nine months ended 30 September 2012

(in $ millions, Unaudited)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	1,571.7	222.7	745.7	2,138.7	7.1	4,685.9
Net operating income/(loss) from operations	331.5	28.4	4.0	275.7	(11.8)	627.8
Finance income						9.7
Other gains and losses						286.9
Finance costs						(26.2)
Income before taxes						898.2

7. Guará-Lula NE project loss

In Q2 2013, the Group announced an increase in the estimated full-life project loss on the Guará-Lula NE project, offshore Brazil. Full-life project loss was estimated to increase by $300 million compared to previous expectations. The net operating income for the nine months ended 30 September 2013 reflected the impact of this additional full-life project loss.

8. Taxation

The underlying effective tax rate for the quarter is 43%, based on a full-year forecast underlying rate of 47%. The net effective tax rate for the quarter is 27%, which reflects the benefit of certain discrete items recorded in the quarter. Discrete items include changes in tax provision estimates and contingencies.

The full year forecast underlying effective tax rate is the Group's forecast corporate income tax expense, excluding discrete items, divided by forecast income before tax.

9. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the parent company by the weighted average number of common shares in issue during the period, excluding common shares purchased by the Group and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

The income and share data used in the calculation of basic and diluted earnings per share were as follows:

	Three Months Ended		Nine Months Ended	
(in $ millions, except share and per share data)	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
Net income attributable to shareholders of the parent company	**152.1**	184.4	**268.4**	689.5
Interest on convertible loan notes (less amounts capitalised)	**15.5**	3.5	**19.5**	8.2
Earnings used in the calculation of diluted earnings per share	**167.6**	187.9	**287.9**	697.7

	Three Months Ended		Nine Months Ended	
(Number of shares)	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
Weighted average number of common shares used in the calculation of basic earnings per share	**332,187,245**	331,121,384	**331,974,333**	334,619,123
Convertible loan notes	**65,053,265**	39,961,007	**40,533,196**	39,085,431
Share options, performance shares and restricted shares	**803,263**	1,192,794	**1,148,046**	1,621,974
Total diluted number of shares	**398,043,773**	372,275,185	**373,655,575**	375,326,528

	Three Months Ended		Nine Months Ended	
(in $ per share)	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
Basic earnings per share	**0.46**	0.56	**0.81**	2.06
Diluted earnings per share	**0.42**	0.50	**0.77**	1.86

The following shares relating to convertible loan notes, restricted share and share option plans that could potentially dilute the earnings per share were excluded from the calculation of diluted earnings per share due to being anti-dilutive for the period:

	Three Months Ended		Nine Months Ended	
	30 Sep 2013 Unaudited	30 Sep 2012 Unaudited	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
Convertible loan notes	**–**	–	**23,418,325**	–
Share options, performance shares and restricted shares	**2,013,004**	2,008,356	**1,885,913**	2,114,556

Adjusted diluted earnings per share

Adjusted diluted earnings per share represents diluted earnings per share adjusted to exclude the gain recognised on the disposal of the Group's share of NKT Flexibles.

The income and share data used in the calculation of adjusted diluted earnings per share were as follows:

	Three Months Ended		Nine Months Ended	
(in $ millions, except share and per share data)	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
Net income attributable to shareholders of the parent company	**152.1**	184.4	**268.4**	689.5
Less: Gain on sale of NKT Flexibles	**–**	(23.3)	**–**	(243.6)
Interest on convertible loan notes (less amounts capitalised)	**15.5**	3.5	**19.5**	8.2
Earnings used in the calculation of adjusted diluted earnings per share	**167.6**	164.6	**287.9**	454.1
Total diluted number of shares (as above)	**398,043,773**	372,275,185	**373,655,575**	375,326,528
Adjusted diluted earnings per share	**0.42**	0.44	**0.77**	1.21

10. Adjusted EBITDA and Adjusted EBITDA margin

Adjusted earnings before interest, taxation, depreciation and amortisation ('Adjusted EBITDA') is a non-IFRS measure that represents net income before additional specific items that are considered to impact the comparison of the Group's performance either year-on-year or with other businesses. The Group calculates Adjusted EBITDA as net income plus finance costs, taxation, depreciation, amortisation and mobilisation and adjusted to exclude finance income, other gains and losses and impairment charges or reversals. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue.

The items excluded from Adjusted EBITDA represent items which are individually or collectively material but which are not considered representative of the performance of the business during the periods presented. Other gains and losses principally relate to disposals of investments, property, plant and equipment and net foreign exchange gains or losses. Impairments of assets represent the excess of the assets' carrying amount over the amount that is expected to be recovered from their use in the future or their sale.

Adjusted EBITDA and Adjusted EBITDA margin have not been prepared in accordance with IFRS as issued by the IASB as adopted for use in the EU. These measures exclude items that can have a significant effect on the Group's income or loss and therefore should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with IFRS) as a measure of the Group's operating results or cash flows from operations (as determined in accordance with IFRS) as a measure of the Group's liquidity.

Management believes that Adjusted EBITDA and Adjusted EBITDA margin are important indicators of the operational strength and the performance of the business. These non-IFRS measures provide management with a meaningful comparative for its various Territories, as they eliminate the effects of financing, depreciation and taxation. Management believes that the presentation of Adjusted EBITDA is also useful as it is similar to measures used by companies within Subsea 7's peer group and therefore believes it to be a helpful calculation for those evaluating companies within Subsea 7's industry. Adjusted EBITDA margin may also be a useful ratio to compare performance to its competitors and is widely used by shareholders and analysts following the Group's performance. Notwithstanding the foregoing, Adjusted EBITDA and Adjusted EBITDA margin as presented by the Group may not be comparable to similarly titled measures reported by other companies.

Reconciliation to net operating income:

	Three Months Ended		Nine Months Ended	
For the period (in $ millions)	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
Net operating income	**269.2**	228.2	**464.0**	627.8
Depreciation, amortisation and mobilisation	**87.5**	84.0	**262.5**	246.6
Impairment/(impairment reversal)	**2.5**	5.8	**12.3**	(5.5)
Adjusted EBITDA	**359.2**	318.0	**738.8**	868.9
Revenue	**1,563.8**	1,743.6	**4,711.4**	4,685.9
Adjusted EBITDA %	**23.0%**	18.2%	**15.7%**	18.5%

Reconciliation to net income:

	Three Months Ended		Nine Months Ended	
For the period (in $ millions)	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
Net income	**159.6**	194.2	**278.1**	698.4
Depreciation, amortisation and mobilisation	**87.5**	84.0	**262.5**	246.6
Impairment/(impairment reversal)	**2.5**	5.8	**12.3**	(5.5)
Finance income	**(4.7)**	(2.4)	**(18.7)**	(9.7)
Other gains and losses	**38.0**	(25.8)	**27.5**	(286.9)
Finance costs	**16.8**	8.9	**58.2**	26.2
Taxation	**59.5**	53.3	**118.9**	199.8
Adjusted EBITDA	**359.2**	318.0	**738.8**	868.9
Revenue	**1,563.8**	1,743.6	**4,711.4**	4,685.9
Adjusted EBITDA %	**23.0%**	18.2%	**15.7%**	18.5%

11. Dividends

A final dividend of $0.60 per common share related to the year ended 31 December 2012 was approved by the shareholders on 28 June 2013 and recognised in shareholders' equity in June 2013. It was paid in July 2013 to shareholders of record as of 5 July 2013.

12. Goodwill

The movement in goodwill during the period was as follows:

	Nine Months Ended	
(in $ millions)	**30 Sep 2013 Unaudited**	30 Sep 2012 Unaudited
At 1 January	**2,574.8**	2,566.6
Transfer to assets held for sale	**–**	(42.6)
Exchange differences	**(15.5)**	51.1
At 30 September	**2,559.3**	2,575.1

13. Property, plant and equipment

Significant additions to property, plant and equipment for the nine months ended 30 September 2013 were as follows:

- purchase of *Simar Esperança*;
- construction of *Seven Waves*;
- construction of the heavy construction vessel; and
- construction of the three new-build PLSVs.

Following completion of its contract with Petrobras, the *Lochnagar* PLSV was sold during the quarter.

14. Assets classified as held for sale

Investments in Sonamet and Sonacergy

On 23 July 2009, the Group entered into a sale agreement to dispose of 19% of its ownership interest in each of Sonamet Industrial, S.A ('Sonamet') and Sonacergy – Servicos E Construcoes Petroliferas Lda (Zona Franca Da Madeira) ('Sonacergy'), Sonamet operates a fabrication yard for clients, including Subsea 7, operating in the offshore oil and gas industry in Angola. Sonacergy provides overseas logistics services and support to Sonamet. The disposal of a 19% interest in each of Sonamet and Sonacergy will result in a reduction of the 55% ownership interest the Group held in each at 30 September 2013, to 36% at which point the investments will be equity accounted. The finalisation of this sale is conditional upon the completion of certain conditions precedent, none of which are in the control of the Group, which were still outstanding as at 30 September 2013. The Group believes continued disclosure as assets held for sale is appropriate.

During the quarter an increase in the carrying value of the net assets of Sonamet and Sonacergy, resulted in an impairment of $2.4 million. The cumulative impairment for the nine months ended 30 September 2013 was $4.7 million (2012: $5.2 million impairment reversal). The impairment was recognised in the Condensed Consolidated Income Statement in operating expenses.

15. Treasury shares

During the nine months ended 30 September 2013, the Group issued 534,123 treasury shares (2012: 1,307,181), to employees to satisfy its commitments under share option and restricted share schemes, in accordance with the terms of those schemes.

At 30 September 2013, the Group owned 17,354,861 common shares as treasury shares, representing 4.9% of the total number of issued shares. These shares were owned as treasury shares through Subsea 7 S.A.'s indirect subsidiary, Subsea 7 Investing (Bermuda) Limited. A further 1,526,200 common shares were held by an employee benefit trust to satisfy performance shares under the Group's 2009 Long-term Incentive Plan and 716,154 shares were held in a separate employee benefit trust to support the restricted stock award plan and other specified stock option awards.

16. Commitments and contingent liabilities

Commitments

As at 30 September 2013, significant capital commitments that the Group had entered into related to:

- contracts totalling approximately $770 million relating to three new-build PLSV's. The vessels are scheduled to be delivered between 2016 and 2017;
- contracts totalling approximately $200 million relating to the new-build heavy construction vessel. The vessel is scheduled to be delivered in 2016;
- contracts totalling approximately $120 million relating to the dive support vessel, *Seven Kestrel*. The vessel is scheduled to be delivered in 2015; and
- contracts totalling approximately $110 million relating to the PLSV, *Seven Waves*. The vessel is scheduled to be delivered in 2014.

Contingent liabilities

Between 2009 and 2011, the Group's Brazilian businesses were audited and formally assessed for ICMS and federal taxes (import duty) by the Brazilian State and Federal tax authorities. The amount assessed including penalties and interest as at 30 September 2013 amounted to BRL 636.8 million ($285.3 million). The Group has challenged these assessments. During the nine months ended 30 September 2013, 17 of the ICMS cases with a total value of BRL 80.4 million ($36.3 million) were heard at the administrative level of the Brazilian legal framework. The judgements were unfavorable to the Group. The respective cases will now be defended by the Group at the higher judicial level of the Brazilian legal system. The Group continues to believe that the likelihood of any payment is not probable and, other than as required by IFRS 3 'Business Combinations', no provision has been recognised.

As part of accounting for the business combination with Subsea 7 Inc., IFRS 3 - 'Business Combinations' required the Group to recognise, as of the acquisition date, the fair value of contingent liabilities assumed if there is a present obligation that arises from past events, even where payment is not probable. The value recognised at 30 September 2013 was $7.2 million (31 December 2012: $27.8 million). The decrease in the nine months ended 30 September 2013 mainly related to $20.6 million of provisions for contingent liabilities which were released relating to a number of cases where legal decisions found in favour of the Group and the cases were closed. Despite the requirements of IFRS 3, the Group continues to believe that payment relating to the remaining recognised contingent liabilities is not probable.

17. Cash flow from operating activities

For the period (in $ millions)	Nine Months Ended 30 Sep 2013 Unaudited	 30 Sep 2012 Unaudited
Cash flow from operating activities:		
Income before taxes	**397.0**	898.2
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**249.4**	233.5
Impairment/(impairment reversal)	**12.3**	(5.5)
Amortisation of intangible assets	**6.8**	9.7
Mobilisation costs	**6.3**	3.4
Adjustments for investing and financing items:		
Share of net income of associates and joint ventures	**(126.5)**	(42.8)
Finance income	**(18.7)**	(9.7)
Finance costs	**58.2**	26.2
(Gain)/loss on disposal of property, plant and equipment	**(12.7)**	0.1
Gain on sale of subsidiary	**–**	(243.6)
Gain on distribution	**–**	(5.6)
Adjustments for equity items:		
Share-based payments	**5.8**	9.6
Foreign currency exchange losses on long-term intercompany loans	**(68.5)**	–
	509.4	873.5
Changes in operating assets and liabilities, net of acquisitions:		
Increase in inventories	**(8.4)**	(1.0)
Decrease/(increase) in operating receivables	**56.1**	(479.0)
Increase in operating liabilities	**236.1**	99.4
	283.8	(380.6)
Income taxes paid	**(116.0)**	(172.7)
Net cash generated from operating activities	**677.2**	320.2

18. Fair value and financial instruments

Except as detailed in the following table, the carrying value of the Group's financial instruments is equal to fair value (for derivative financial instruments) or approximates the fair value of the financial instruments due to their short maturities:

As at (in $ millions)	2013 30 Sep Carrying amount	2013 30 Sep Fair value	2012 31 Dec Carrying amount	2012 31 Dec Fair value
Financial liabilities				
Borrowings – convertible loan notes	**1,406.2**	**1,411.2**	1,377.7	1,398.8

Borrowings – convertible loan notes

The fair value of the liability components of convertible loan notes is determined by matching the maturity profile of the note to market interest rates available to the Group. At the balance sheet date the interest rates available ranged from 1.6% to 3.7%.

Fair value measurements

Fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market date (unobservable inputs).

Recurring and non-recurring fair value measurements

Recurring fair value measurements are those that IFRSs require at the end of each reporting period and non-recurring fair value measurements are those that IFRSs require or permit in particular circumstances.

18. Fair value and financial instruments (continued)

Assets and liabilities which are measured at fair value in the Condensed Consolidated Balance Sheet and their level of the fair value hierarchy were as follows:

As at (in $ millions)	**2013 30 Sep Level 2**	**2013 30 Sep Level 3**	2012 31 Dec Level 2	2012 31 Dec Level 3
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Derivative instruments	**23.7**	**–**	53.9	–
Derivative instruments in designated hedge accounting relationships	**26.6**	**–**	20.1	–
Financial liabilities at fair value through profit or loss:				
Derivative instruments	**(17.3)**	**–**	(30.2)	–
Derivative instruments in designated hedge accounting relationships	**(6.0)**	**–**	(8.1)	–
Non-recurring fair value measurements				
Assets classified as held for sale	**–**	**164.8**	–	150.3

During the nine months ended 30 September 2013 there have been no transfers between levels of the fair value hierarchy. The Group accounts for transfers between levels of the fair value hierarchy from the date of the event or change in circumstance that caused the transfer.

Fair value techniques and inputs

Financial assets and liabilities at fair value through profit or loss

The Group's financial assets and liabilities fair value through profit or loss comprised:

- Forward foreign exchange contracts
  The fair value of outstanding forward foreign exchange contracts was calculated using quoted foreign exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.
- Interest rate swap
  The fair value of the Group's interest rate swap was calculated using quoted 3 month US Dollar LIBOR rates. At the balance sheet date the three month US Dollar LIBOR rate was 0.25%.

Non-recurring fair value measurements

The Group's investments in Sonamet and Sonacergy, as described in Note 14 'Assets classified as held for sale' were valued at fair value less costs to sell in accordance with IFRS 5. The agreed consideration is discounted based on the estimated timing of the receipt of such proceeds using the Group's weighted average cost of capital. There was no change to the valuation policies and procedures in the quarter. Further information on the income statement impact for the quarter is included within Note 14. Changes in fair value are recorded in the Condensed Consolidated Income Statement as impairment charges within operating expenses.

19. Related party transactions

At 30 September 2013, the Group was an associate of Siem Industries Inc. Siem Offshore Inc. is an associate of Siem Industries Inc. and has Subsea 7 S.A. directors Mr Eriksrud and Mr Siem as its chairman and a board member respectively. During the nine months ended 30 September 2013, in addition to normal trading transactions, the Group purchased the construction vessel, *Seven Sisters* from a subsidiary of Siem Offshore Inc. The vessel was renamed *Simar Esperança* and is expected to be sold to the Group's joint venture SIMAR.

During the nine months ended 30 September 2013 the Group provided a loan of NOK 672 million ($115.3 million) to its joint venture Eidesvik Seven to fund the construction of *Seven Viking*. The loan was made on arms-length commercial terms.

20. Post balance sheet events

2013 Convertible loan notes

In September 2013 holders of an aggregate $162.8 million (par value) of the $500 million 2.25% convertible loan notes filed their conversion notice for their notes to be converted into common shares of Subsea 7 S.A. In October and November 2013, a total of 7,763,453 common shares were delivered to noteholders from existing shares held in treasury. The remaining $337.2 million (par value) of notes were redeemed at their principal amount in October 2013.

Share buyback

On 7 October 2013, the Group announced a share buyback programmed of up to $200 million. The programme was approved pursuant to the standing authorisation granted to the Board of Directors at the Annual General Meeting held on 27 May 2011, which allows for the purchase of up to a maximum of 10% of the Group's issued share capital, net of purchases already made.

All repurchases will be made in the open market on the Oslo Børs, pursuant to certain conditions and are in conformity with Article 49-2 of the Luxembourg Company Law and the EU Commission Regulation 2273/2003 on exemptions for buyback programmes and stabilisation of financial instruments. The repurchased shares will be held as treasury shares. As at 15 November 2013, the Group had repurchased 493,377 shares for a total consideration of NOK 61.5 million ($10.2 million).