Subsea 7 S.A. Announces First Quarter 2014 Results

Luxembourg – 30 April 2014 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC) announced today results for the first quarter which ended on 31 March 2014. The Group's reporting segments are set out in Note 6 'Segment information'.

	Three months ended	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**31 Mar 2014 Unaudited**	31 Mar 2013 Unaudited
Revenue	**1,668**	1,467
Adjusted EBITDA[1]	**264**	241
Adjusted EBITDA margin[1]	**16%**	16%
Net operating income	**166**	154
Net income	**137**	132
Earnings per share – in $ per share[2]		
Basic	**0.46**	0.40
Diluted	**0.41**	0.37

As at (in $ millions)	**31 Mar 2014 Unaudited**	31 Dec 2013 Audited
Backlog	**11,552**	11,770
Cash and cash equivalents	**538**	650
Borrowings	**916**	912

(1) For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin please refer to Note 8 of the Condensed Consolidated Financial Statements included herein.

(2) For explanations and calculations for basic and diluted earnings per share please refer to Note 7 of the Condensed Consolidated Financial Statements included herein.

Jean Cahuzac, Chief Executive Officer, said:

First quarter 2014

'The Group has had a good start to 2014, with first quarter revenue and Adjusted EBITDA both increasing from the levels achieved in the first quarter of 2013. I am pleased overall with the operational performance in executing our project portfolio.

In line with our expectation, the record order backlog with which we started 2014 declined marginally in the quarter, ending the period at $11.6 billion. In addition to announced contract awards, scope changes and commitments made under frame agreements augmented order intake.

The *Seven Waves*, the first of the four new-build PLSVs, successfully completed final equipment trials in the first quarter and is expected to commence operations for Petrobras in May this year under a five-year contract. The vessel has been built and commissioned in line with our cost estimates and will be operational three months ahead of schedule.

Cash levels declined somewhat in the quarter, consistent with our expectations, mainly reflecting the timing of milestone payments on vessel construction projects and the continuation of our share repurchase programme.

Operational highlights for the first quarter 2014

In West Africa, the CLOV project offshore Angola achieved key execution milestones with the installation of two Hybrid Riser Towers and associated buoyancy tanks in the first quarter, led by the *Seven Borealis*. Other projects that progressed significantly included Block 31 GES, offshore Angola, and Erha North, offshore Nigeria.

In Australia, the Gorgon Heavy Lift and Tie-ins project was in its offshore phase throughout the quarter, while in India, the G1 project for ONGC commenced the third phase of its offshore campaign.

The Guará-Lula NE project in Brazil realised a good quarter of operational achievements, with the second and third buoys successfully placed in position and additional risers installed. The previously communicated project timetable remains unchanged and no adjustment has been made to the estimated full-life project loss.

In the North Sea and Canada, the diverse portfolio of work progressed well, with Life-of-Field particularly active.

Vessel utilisation for the Group was 79% (74% in Q1 2013), which was relatively high for a first quarter period and reflected robust activity levels and moderate out of service time due to dry-dockings.

Outlook

The trend that began in 2013 for many clients to take longer to award subsea contracts continued in the first quarter of 2014. We expect these delays to have an impact on order intake in the near-term, although high tendering activity in all Territories bodes well for the medium-term outlook.

We reiterate our previous guidance for an expected increase in Group revenue for the full year 2014, together with a moderate increase in Group Adjusted EBITDA from the level achieved in 2013 after adding back the full-life project loss provision recognised on the Guará-Lula NE project in 2013 that amounted to $355 million.'

Conference Call Details

Conference Call Information

Lines will open 15 minutes prior to the conference call.

Date: 30 April 2014

Time: 12:00 UK Time

Conference ID: 90431537#

	Conference Dial In Numbers
United Kingdom	0203 139 4830
United States	718 873 9077
Norway	2 350 0559
Sweden	08 5059 6306
France	02 9092 0977
International Dial In	+44 203 139 4830

Replay Facility Details

A replay facility (with Conference ID 647651#) will be available for a 30 day period from:

Date: 30 April 2014
Time: 14:00 UK Time

	Conference Replay Dial In Numbers
Dial In	+44 (0) 203 426 2807

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

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If you no longer wish to receive our press releases please contact: ir@subsea7.com

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’, ‘could’, ‘estimate’, ‘expect’, ‘forecast’, ‘intend’, ‘may’, ‘might’, ‘plan’, ‘predict’, ‘project’, ‘scheduled’, ‘seek’, ‘should’, ‘will’, and similar expressions. The forward-looking statements reflect our current views and are subject to risks, uncertainties and assumptions. The principal risks and uncertainties which could impact the Group and the factors which could affect the actual results are described but not limited to those in the ‘Risk management’ section in the Group’s Annual Report and Consolidated Financial Statements for the year ended 31 December 2013. These factors, and others which are discussed in our public announcements, 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 vessels on order and the timely completion of vessel 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. Other unknown or unpredictable factors could also have material adverse effects on our future results. Given these factors, you should not place undue reliance on the forward-looking statements.

Management Report: Financial Review

First Quarter 2014

Revenue
Revenue for the quarter was $1.7 billion, an increase of $201 million compared with Q1 2013. The increase primarily reflected higher activity levels in the AFGOM and APME Territories partially offset by decreased revenue in the NSC Territory.

Adjusted EBITDA
Adjusted EBITDA for the quarter was $264 million, an increase of $23 million or 10% compared to Q1 2013. Adjusted EBITDA margin was 16%, which was in line with Q1 2013.

Net operating income
Net operating income was $166 million, compared with $154 million in Q1 2013. This increase was primarily due to the higher activity levels in the quarter compared with the same prior year period, partially offset by an increase in depreciation expense of $8 million, driven by vessel-related capital expenditures. General administrative expenses for Q1 2013 of $76 million benefitted from the release of a $16 million provision related to the business combination in 2011. Excluding this provision release from the prior year period, Q1 2014 administrative expenses decreased by $11 million compared with Q1 2013.

Net income
Net income was $137 million, compared to net income of $132 million in Q1 2013. The increase in net income was primarily due to:

- the increase in net operating income
- a $20 million decrease in finance costs due to higher levels of capitalised interest on assets under construction in Q1 2014, the absence of interest relating to the $500 million convertible notes which matured in Q4 2013 and costs incurred in Q1 2013 on the early repayment of the Seven Havila loan

partially offset by:

- a loss on disposal of property, plant and equipment of $1 million recognised within other gains and losses compared with a $13 million gain in Q1 2013.

The effective tax rate for the quarter was 21.0%, which reflected the benefit of certain discrete items. Discrete items related to changes in prior year tax provision estimates. Excluding these items, the underlying effective tax rate was 27.3%.

Earnings per share
Diluted earnings per share was $0.41 compared to diluted earnings per share of $0.37 in Q1 2013, based on a weighted average number of shares of 376 million and 396 million shares respectively.

Cash and cash equivalents
During the quarter cash and cash equivalents decreased to $538 million from $650 million. The movement in cash and cash equivalents was mainly attributable to expenditure on property, plant and equipment of $288 million (primarily payments on new-build vessels) and share repurchases of $71 million partially offset by cash generated from operating activities of $257 million.

Borrowings
Borrowings increased by $4 million to $916 million during the quarter.

Territory highlights

First Quarter 2014

Africa, Gulf of Mexico & Mediterranean (AFGOM)
Revenue was $669 million, an increase of $141 million or 27% compared to Q1 2013. During the quarter there was progress on the CLOV, Lianzi SURF and Block 31 GES projects, offshore Angola, the OFON 2, OCIP Phase 2 and Erha North projects, offshore Nigeria and the Line 60 and Line 67 projects, in the Mexican sector of the Gulf of Mexico. Net operating income was $77 million compared to $86 million in Q1 2013. The decrease was partially due to additional costs incurred on the Line 60 and Line 67 projects mainly related to changes in project schedule currently under discussion with the operator.

Asia Pacific & Middle East (APME)
Revenue was $205 million, an increase of $81 million compared to Q1 2013. There was significant progress on the Gorgon Heavy Lift and Tie-ins and Ningaloo projects, offshore Australia. Net operating income was $11 million, compared to $15 million net operating income in Q1 2013. The decrease in net operating income was mainly due to the timing of cost recognition on projects in Australia partially offset by a contribution from the SapuraAcergy joint venture in relation to the Gumusut-Kakap project, offshore Malaysia.

Brazil (BRAZIL)
Revenue for the quarter was $231 million, an increase of $14 million compared to Q1 2013. The offshore phase of the Guará-Lula NE project and the Sapinhoá and Lula NE project continued during the quarter. Net operating income for the quarter was $19 million (Q1 2013: $22 million net operating loss) due to progress on Sapinhoá and Lula NE project and high levels of vessel activity under the long-term PLSV contracts with Petrobras. In Q1 2013 the net operating loss resulted from the cancellation of the offshore scope of the UOTE project and the *Seven Oceans* being in scheduled dry-dock.

North Sea & Canada (NSC)
Revenue was $558 million compared to $596 million in Q1 2013. In Q1 2014, work progressed on the Knarr, Martin Linge and Delta S2 projects, offshore Norway, and the Montrose, Western Isles and Laggan Tormore projects, offshore UK. Net operating income was $73 million, a decrease of $12 million compared to Q1 2013 which benefitted from the recognition of the settlement for the Fram project cancellation.

Corporate (CORP)
Revenue was $5 million (Q1 2013: $2 million). Net operating loss of $14 million (Q1 2013: $10 million net operating loss), reflected a lower contribution from Seaway Heavy Lifting in the quarter due to the planned dry-docking of the *Stanislav Yudin*.

Asset Development and Activities - First Quarter 2014

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 conditional upon the completion of certain conditions precedent, none of which are under the control of the Group. There is no indication that the sale will not proceed as anticipated and the Group expects completion during 2014, 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'. The Group believes continued disclosure as assets held for sale is appropriate.

Fleet Utilisation

Vessel utilisation during the first quarter was 79% compared with 74% in Q1 2013.

New-build vessel programme capital expenditure

The *Seven Waves,* a new-build flexible pipelay support vessel (PLSV) for Brazil, is scheduled to commence operations in the second quarter of 2014.

Construction continued on:

- the *Seven Arctic,* a heavy construction vessel, due for delivery in 2016
- three PLSVs, the *Seven Rio*, *Seven Sun* and *Seven Cruzeiro*, linked to long-term contracts awarded by Petrobras, with delivery expected in 2015 and 2016
- the *Seven Kestrel,* a diving support vessel for operation in NSC, with delivery expected in 2015.

Actual and forecast expenditure on the Group's new-build vessel programme as at 31 March 2014 was:

	Actual expenditure			Forecast expenditure			
(in $ millions)	**2012**	**2013**	**Q1 2014**	**Q2-Q4 2014**	**2015**	**2016**	**Total**
Total	185	372	161	410	600	190	1,918

This includes the four PLSVs being constructed to operate under long-term contracts with Petrobras in Brazil (the *Seven Waves, Seven Rio*, *Seven Sun* and *Seven Cruzeiro*), and the construction of the *Seven Arctic* and the *Seven Kestrel*. Expenditure amounts include an estimate of capitalised interest during construction as part of the initial cost of the vessels.

Backlog

The Group had a backlog of $11.6 billion at 31 March 2014, a decrease of $0.2 billion or 2% compared to 31 December 2013. Significant contracts awarded in Q1 2014 included the BC-10 Phase 3 project in Brazil, contracts with Petrobras for remote intervention services by the i-Tech division and a three-year subsea construction services contract with ExxonMobil in Canada.

$9.1 billion of the backlog at 31 March 2014 related to SURF activity, $1.2 billion to Life-of-Field, $0.6 billion to Conventional and Hook-up and $0.7 billion to i-Tech. $4.8 billion of this backlog is expected to be executed in 2014, $3.0 billion in 2015 and $3.8 billion in 2016 and thereafter. Backlog related to associates and joint ventures is excluded from these amounts.

Subsea 7 S.A.

Condensed Consolidated Income Statement

(in $ millions, except per share data)	Three Months Ended 31 Mar 2014 Unaudited	Three Months Ended 31 Mar 2013 Unaudited
Revenue	**1,668.0**	1,467.1
Operating expenses	**(1,437.1)**	(1,252.8)
Gross profit	**230.9**	214.3
Administrative expenses	**(80.8)**	(75.6)
Share of net income of associates and joint ventures	**15.7**	15.5
Net operating income	**165.8**	154.2
Finance income	**4.1**	7.1
Other gains and losses	**8.5**	21.3
Finance costs	**(5.2)**	(24.7)
Income before taxes	**173.2**	157.9
Taxation	**(36.4)**	(26.0)
Net income	**136.8**	131.9
Net income attributable to:		
Shareholders of the parent company	**152.7**	133.6
Non-controlling interests	**(15.9)**	(1.7)
	136.8	131.9

Earnings per share	**$ per share**	$ per share
Basic	**0.46**	0.40
Diluted	**0.41**	0.37

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Condensed Consolidated Statement of Comprehensive Income

(in $ millions)	Three Months Ended 31 Mar 2014 Unaudited	Three Months Ended 31 Mar 2013 Unaudited
Net income	**136.8**	131.9
Other comprehensive income		
Items that may be reclassified to the income statement in subsequent periods:		
Foreign currency translation	**48.2**	(235.1)
Cash flow hedges:		
Net fair value gains/(losses) arising	**2.1**	(19.8)
Reclassification adjustments for amounts recognised in the Consolidated Income Statement	**(1.6)**	(0.3)
Adjustments for amounts transferred to the initial carrying amounts of hedged items	**0.2**	0.2
Share of other comprehensive income of associates and joint ventures	**1.0**	2.5
Tax relating to components of other comprehensive income which may be reclassified	**(3.8)**	12.1
Other comprehensive income/(loss)	**46.1**	(240.4)
Total comprehensive income/(loss)	**182.9**	(108.5)
Total comprehensive income attributable to:		
Shareholders of the parent company	**198.7**	(106.8)
Non-controlling interests	**(15.8)**	(1.7)
	182.9	(108.5)

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Condensed Consolidated Balance Sheet

As at (in $ millions)	31 Mar 2014 Unaudited	31 Dec 2013 Audited
Assets		
Non-current assets		
Goodwill	**2,608.9**	2,584.6
Intangible assets	**22.2**	24.6
Property, plant and equipment	**4,290.5**	4,098.0
Interest in associates and joint ventures	**316.1**	310.7
Advances and receivables	**137.7**	136.3
Derivative financial instruments	**11.6**	18.1
Deferred tax assets	**51.1**	48.4
	7,438.1	7,220.7
Current assets		
Inventories	**48.5**	43.5
Trade and other receivables	**1,039.4**	1,008.0
Derivative financial instruments	**38.4**	41.8
Assets classified as held for sale	**394.3**	394.8
Construction contracts – assets	**622.4**	575.0
Other accrued income and prepaid expenses	**377.1**	404.0
Restricted cash	**20.0**	20.0
Cash and cash equivalents	**538.4**	649.5
	3,078.5	3,136.6
Total assets	**10,516.6**	10,357.3
Equity		
Issued share capital	**703.6**	703.6
Treasury shares	**(421.6)**	(356.9)
Paid in surplus	**3,843.9**	3,841.6
Equity reserve	**248.5**	248.5
Translation reserve	**76.4**	31.9
Other reserves	**(58.0)**	(59.5)
Retained earnings	**2,309.2**	2,156.5
Equity attributable to shareholders of the parent company	**6,702.0**	6,565.7
Non-controlling interests	**26.4**	46.5
Total equity	**6,728.4**	6,612.2
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**640.3**	636.3
Retirement benefit obligations	**19.7**	19.1
Deferred tax liabilities	**170.1**	169.7
Provisions	**32.4**	35.5
Contingent liability recognised	**7.0**	6.8
Derivative financial instruments	**10.6**	12.6
Other non-current liabilities	**16.3**	14.6
	896.4	894.6
Current liabilities		
Trade and other liabilities	**1,786.4**	1,637.4
Derivative financial instruments	**10.0**	9.1
Current tax liabilities	**89.0**	111.2
Current portion of borrowings	**275.2**	275.4
Liabilities directly associated with assets classified as held for sale	**212.7**	194.5
Provisions	**22.1**	19.0
Construction contracts – liabilities	**491.7**	600.7
Deferred revenue	**4.7**	3.2
	2,891.8	2,850.5
Total liabilities	**3,788.2**	3,745.1
Total equity and liabilities	**10,516.6**	10,357.3

Subsea 7 S.A.

Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2014

(in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Equity reserve	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2014	**703.6**	**(356.9)**	**3,841.6**	**248.5**	**31.9**	**(59.5)**	**2,156.5**	**6,565.7**	**46.5**	**6,612.2**
Comprehensive income										
Net income	–	–	–	–	–	–	152.7	152.7	(15.9)	136.8
Exchange differences	–	–	–	–	48.1	–	–	48.1	0.1	48.2
Cash flow hedges	–	–	–	–	–	0.7	–	0.7	–	0.7
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	1.0	–	1.0	–	1.0
Tax relating to components of other comprehensive income	–	–	–	–	(3.6)	(0.2)	–	(3.8)	–	(3.8)
Total comprehensive income	**–**	**–**	**–**	**–**	**44.5**	**1.5**	**152.7**	**198.7**	**(15.8)**	**182.9**
Transactions with owners										
Shares repurchased	–	(64.7)	–	–	–	–	–	(64.7)	–	(64.7)
Dividends declared	–	–	–	–	–	–	–	–	(4.3)	(4.3)
Share-based compensation	–	–	2.3	–	–	–	–	2.3	–	2.3
Total transactions with owners	**–**	**(64.7)**	**2.3**	**–**	**–**	**–**	**–**	**(62.4)**	**(4.3)**	**(66.7)**
Balance at 31 March 2014	**703.6**	**(421.6)**	**3,843.9**	**248.5**	**76.4**	**(58.0)**	**2,309.2**	**6,702.0**	**26.4**	**6,728.4**

For the three months ended 31 March 2013

(in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Equity reserve	Translation reserve	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	–	–	–	–	–	–	133.6	133.6	(1.7)	131.9
Exchange differences	–	–	–	–	(235.1)	–	–	(235.1)	–	(235.1)
Cash flow hedges	–	–	–	–	–	(19.9)	–	(19.9)	–	(19.9)
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	2.5	–	2.5	–	2.5
Tax relating to components of other comprehensive income	–	–	–	–	6.1	6.0	–	12.1	–	12.1
Total comprehensive income	**–**	**–**	**–**	**–**	**(229.0)**	**(11.4)**	**133.6**	**(106.8)**	**(1.7)**	**(108.5)**
Transactions with owners										
Share-based compensation	–	–	2.4	–	–	–	–	2.4	–	2.4
Shares reissued	–	1.1	–	–	–	–	–	1.1	–	1.1
Loss on reissuance of treasury shares	–	–	–	–	–	–	(0.9)	(0.9)	–	(0.9)
Total transactions with owners	**–**	**1.1**	**2.4**	**–**	**–**	**–**	**(0.9)**	**2.6**	**–**	**2.6**
Balance at 31 March 2013	**703.6**	**(442.8)**	**3,884.2**	**359.2**	**(185.0)**	**(92.7)**	**1,993.8**	**6,220.3**	**42.1**	**6,262.4**

Subsea 7 S.A.

Condensed Consolidated Cash Flow Statement

For the three months ended (in $ millions)	**31 Mar 2014 Unaudited**	31 Mar 2013 Unaudited
Net cash generated from operating activities	**257.1**	402.0
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**–**	8.8
Purchases of property, plant and equipment	**(287.8)**	(182.9)
Purchases of intangible assets	**–**	(1.0)
Interest received	**4.1**	7.1
Dividends received from associates and joint ventures	**12.5**	2.3
Investment in associates and joint ventures	**–**	(1.4)
Net cash used in investing activities	**(271.2)**	(167.1)
Cash flows from financing activities		
Interest paid	**(1.9)**	(9.7)
Repayments of borrowings	**–**	(158.1)
Shares repurchased	**(70.9)**	–
Loan repayments from joint ventures	**–**	(115.3)
Proceeds from reissuance of treasury shares	**–**	0.2
Net cash used in financing activities	**(72.8)**	(282.9)
Net decrease in cash and cash equivalents	**(86.9)**	(48.0)
Cash and cash equivalents at beginning of period	**649.5**	1,287.9
Effect of foreign exchange rate movements on cash and cash equivalents	**(1.0)**	2.1
Increase in restricted cash balances	**–**	(20.0)
Increase in cash balances classified as assets held for sale	**(23.2)**	(19.2)
Cash and cash equivalents at end of period	**538.4**	1,202.8

1. General information

Subsea 7 S.A. is a company registered in Luxembourg whose common shares trade on the 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 Financial Statements were authorised for issue by the Board of Directors on 29 April 2014.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period 1 January 2014 to 31 March 2014 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 Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2013 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 Financial Statements are unaudited.

3. Accounting policies

Basis of accounting

The accounting policies adopted in the preparation of the Condensed Consolidated Financial Statements are consistent with the Consolidated Financial Statements for the year ended 31 December 2013, except as noted below.

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 and amended International Financial Reporting Standards and interpretations have been adopted from 1 January 2014:

IFRS 10 'Consolidated Financial Statements'

IFRS 10 replaces the portion of IAS 27 'Consolidated and Separate Financial Statements' that addresses the accounting for Consolidated Financial Statements and SIC-12 'Consolidation – Special Purpose Entities'. IFRS 10 establishes a single control model that applies to all entities including 'special purpose entities'. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements of the current IAS 27. The adoption of IFRS 10 did not have a significant impact on the currently held investments of the Group.

IFRS 11 'Joint Arrangements'

IFRS 11 replaces IAS 31 'Interests in Joint Ventures and SIC-13 Jointly-controlled Entities' ('JCEs'). IFRS 11 removes the option to account for JCEs using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The adoption of IFRS 11 did not have a significant impact on the currently held joint arrangements of the Group.

IFRS 12 'Disclosure of Interests in Other Entities'

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to Consolidated Financial Statements, as well as all of the disclosures that were previously included in IAS 31 'Interests in Joint Ventures' and IAS 28 'Investment in Associates'. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required but IFRS 12 has no impact on the Group's financial position or performance.

IAS 27 'Separate Financial Statements'

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

IAS 28 'Investments in Associates and Joint Ventures'

As a consequence of the issuance of IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 'Investments in Associates and Joint Ventures', and describes the application of the equity method to investments in joint ventures in addition to associates.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. The amendments clarify that rights of set-off must be legally enforceable in the normal course of business and enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract. The amendments also clarify that rights of set-off must not be contingent on a future event.

The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. These amendments did not impact the Group's financial position or performance.

Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39

The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendment covers novations which meet strict criteria. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting. These amendments did not impact the Group's financial position or performance.

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 2013, 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 2013:

- 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.

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. Reporting segments are defined below:

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. It also includes the SIMAR and Nigerstar 7 joint ventures.

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.

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.

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

For the three months ended 31 March 2014

(in $ millions)	**AFGOM**	**APME**	**BRAZIL**	**NSC**	**CORP**	**Total**
Revenue	**669.4**	**204.6**	**230.6**	**558.0**	**5.4**	**1,668.0**
Net operating income/(loss) from operations	**76.6**	**11.4**	**18.9**	**72.5**	**(13.6)**	**165.8**
Finance income						**4.1**
Other gains and losses						**8.5**
Finance costs						**(5.2)**
Income before taxes						**173.2**

For the three months ended 31 March 2013

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	528.9	123.4	216.8	595.7	2.3	1,467.1
Net operating income/(loss) from operations	86.0	14.5	(21.6)	84.8	(9.5)	154.2
Finance income						7.1
Other gains and losses						21.3
Finance costs						(24.7)
Income before taxes						157.9

7. 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	
(in $ millions, except share and per share data)	**31 Mar 2014 Unaudited**	31 Mar 2013 Unaudited
Net income attributable to shareholders of the parent company	**152.7**	133.6
Interest on convertible bonds and convertible notes (net of amounts capitalised)	**3.3**	14.9
Earnings used in the calculation of diluted earnings per share	**156.0**	148.5

	Three Months Ended	
(Number of shares)	**31 Mar 2014 Unaudited**	31 Mar 2013 Unaudited
Weighted average number of common shares used in the calculation of basic earnings per share	**334,096,205**	331,682,637
Convertible bonds and convertible notes	**41,265,693**	63,391,519
Share options, performance shares and restricted shares	**656,119**	1,341,040
Weighted average number of common shares used in the calculation of diluted earnings per share	**376,018,017**	396,415,196

	Three Months Ended	
(in $ per share)	**31 Mar 2014 Unaudited**	31 Mar 2013 Unaudited
Basic earnings per share	**0.46**	0.40
Diluted earnings per share	**0.41**	0.37

The following shares 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	
	31 Mar 2014 Unaudited	31 Mar 2013 Unaudited
Share options, performance shares and restricted shares	**2,411,829**	3,393,354

8. 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, expressed as a percentage.

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	
For the period (in $ millions)	**31 Mar 2014 Unaudited**	31 Mar 2013 Unaudited
Net operating income	**165.8**	154.2
Depreciation, amortisation and mobilisation	**97.3**	87.4
Impairment/(impairment reversal)	**0.8**	(0.8)
Adjusted EBITDA	**263.9**	240.8
Revenue	**1,668.0**	1,467.1
Adjusted EBITDA %	**15.8%**	16.4%

Reconciliation to net income:

	Three Months Ended	
For the period (in $ millions)	**31 Mar 2014 Unaudited**	31 Mar 2013 Unaudited
Net income	**136.8**	131.9
Depreciation, amortisation and mobilisation	**97.3**	87.4
Impairment/(impairment reversal)	**0.8**	(0.8)
Finance income	**(4.1)**	(7.1)
Other gains and losses	**(8.5)**	(21.3)
Finance costs	**5.2**	24.7
Taxation	**36.4**	26.0
Adjusted EBITDA	**263.9**	240.8
Revenue	**1,668.0**	1,467.1
Adjusted EBITDA %	**15.8%**	16.4%

9. Dividends

Proposed dividend

The Board of Directors has recommended that shareholders approve a special dividend of NOK 3.60 per share at the next Annual General Meeting on 27 June 2014.

10. Goodwill

The movement in goodwill during the period was as follows:

	Three Months Ended	
(in $ millions)	**31 Mar 2014 Unaudited**	**31 Mar 2013 Unaudited**
At period beginning	**2,584.6**	2,574.8
Exchange differences	**24.3**	(104.4)
At period end	**2,608.9**	2,470.4

11. Property, plant and equipment

Significant additions to property, plant and equipment during the period ended 31 March 2014 included $161 million expenditure related to the new-build vessel programme. This included the following significant additions:

- $46 million expenditure on the PLSV, the *Seven Sun*
- $40 million expenditure on the PLSV, the *Seven Rio*
- $34 million expenditure on the PLSV, the *Seven Waves*
- $31 million expenditure on the diving support vessel, the *Seven Kestrel*.

12. 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, supporting 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 31 March 2014, 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. There is no indication that the sale will not proceed as anticipated at the agreed price and the Group expects completion during 2014. The Group believes that continued disclosure as assets held for sale is appropriate.

During the quarter, net income of the subsidiaries resulted in an increase in the carrying value of the net assets of Sonamet and Sonacergy. There was no associated increase in the expected disposal proceeds and as a result an impairment of $0.8 million was recognised in the three months ended 31 March 2014 (Q1 2013: $0.8 million impairment reversal). The impairment was recognised in the Condensed Consolidated Income Statement in operating expenses. The cumulative impairment charge at 31 March 2014 was $19.8 million (31 December 2013: $19.0 million).

13. Treasury shares

At 31 March 2014, the Group owned 17,836,787 common shares as treasury shares, representing 5.1% 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 682,677 shares were held in a separate employee benefit trust to support the Subsea 7 Inc. restricted stock award plan and other specified share option awards.

No share options were exercised in the quarter (Q1 2013: 112,400), generating proceeds of $nil (Q1 2013: $0.2 million). 1,420 treasury shares were used to satisfy share-based awards which vested during the period (Q1 2013: 17,040). No new common shares were issued.

14. Share repurchase plan

During the first quarter 2014, the Group continued with its $200 million share repurchase programme initiated in October 2013 and repurchased 3,643,001 shares for a total consideration of $64.7 million. As at 31 March 2014, the Group had repurchased a cumulative 8,293,377 shares for a total consideration of $155.9 million.

15. Commitments and contingent liabilities

Commitments

As at 31 March 2014, significant capital commitments that the Group had entered into related to:

- contracts totalling approximately $580 million relating to three new-build PLSV's, the *Seven Rio*, *Seven Sun* and *Seven Cruzeiro*. The vessels are scheduled to be delivered between 2015 and 2016
- contracts totalling approximately $210 million relating to the new-build heavy construction vessel, the *Seven Arctic*. The vessel is scheduled to be delivered in 2016
- contracts totalling approximately $95 million relating to the diving support vessel, the *Seven Kestrel*. The vessel is scheduled to be delivered in 2015.

Contingent liabilities

Between 2009 and 2013, the Group's Brazilian businesses were audited and formally assessed for a state tax (ICMS) and federal taxes by the Brazilian State and Federal tax authorities. The amount assessed including penalties and interest as at 31 March 2014 amounted to BRL 664.2 million ($288.3 million). At 31 December 2013 the amount assessed including penalties and interest amounted to BRL 660.1 million ($280.3 million). 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 was a present obligation that arose from past events, even where payment was not probable. The value recognised at 31 March 2014 was $7.0 million (31 December 2013: $6.8 million). Despite the requirements of IFRS 3, the Group continues to believe that payment relating to the remaining recognised contingent liabilities is not probable.

16. Cash flow from operating activities

For the period ended (in $ millions)	Three Months Ended 31 Mar 2014 Unaudited	Three Months Ended 31 Mar 2013 Unaudited
Cash flow from operating activities:		
Income before taxes	**173.2**	157.9
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**91.0**	83.1
Net impairment/(impairment reversal)	**0.8**	(0.8)
Amortisation of intangible assets	**2.8**	2.3
Mobilisation costs	**3.5**	2.0
Adjustments for investing and financing items:		
Share in net income of associates and joint ventures	**(15.7)**	(15.5)
Finance income	**(4.1)**	(7.1)
Finance costs	**5.2**	24.7
Loss/(gain) on disposal of property, plant and equipment	**0.7**	(12.7)
Adjustments for equity items:		
Share-based payments	**2.3**	2.4
	259.7	236.3
Changes in operating assets and liabilities:		
Increase in inventories	**(4.6)**	(11.8)
Decrease in operating receivables	**1.7**	94.0
Increase in operating liabilities	**72.8**	117.3
	69.9	199.5
Income taxes paid	**(72.5)**	(33.8)
Net cash generated from operating activities	**257.1**	402.0

17. Fair value and financial instruments

Except as detailed in the following table, the carrying value of the Group's financial assets and financial liabilities recorded at amortised cost in the Condensed Consolidated Financial Statements approximate their fair values:

As at (in $ millions)	31 Mar 2014 Carrying amount Unaudited	31 Mar 2014 Fair value Unaudited	31 Dec 2013 Carrying amount Audited	31 Dec 2013 Fair value Audited
Financial liabilities				
Borrowings – convertible bonds – Level 2	**(915.5)**	**(937.0)**	(911.7)	(923.7)

Borrowings – convertible bonds

The fair value of the liability components of convertible bonds is determined by matching the maturity profile of the bonds to market interest rates available to the Group. At the balance sheet date the interest rates available ranged from 0.8% to 2.8%. (31 December 2013: 0.8% to 3.3%).

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.

17. 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)	**31 Mar 2014 Level 2 Unaudited**	**31 Mar 2014 Level 3 Unaudited**	31 Dec 2013 Level 2 Audited	31 Dec 2013 Level 3 Audited
Recurring fair value measurements				
Financial assets:				
Financial assets at fair value through profit or loss - derivative instruments	**27.4**	**–**	33.5	–
Derivative instruments in designated hedge accounting relationships	**22.6**	**–**	26.4	–
Financial liabilities:				
Financial liabilities at fair value through profit or loss - derivative instruments	**(17.4)**	**–**	(17.2)	–
Derivative instruments in designated hedge accounting relationships	**(3.2)**	**–**	(4.5)	–
Non-recurring fair value measurements				
Assets classified as held for sale	**–**	**181.6**	–	200.3

During the period ended 31 March 2014 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 0.23%.

Non-recurring fair value measurements

The Group's investments in Sonamet and Sonacergy, as described in Note 12 '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 12. Changes in fair value are recorded in the Condensed Consolidated Income Statement as impairment charges within operating expenses.

18. Post balance sheet events

Share repurchase plan

Between 1 April 2014 and 25 April 2014, the Group repurchased a further 1,139,258 shares for a total consideration of $20.1 million.