Subsea 7 S.A. Announces Second Quarter & Half Year 2014 Results

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

	Second Quarter		**Half Year**	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**Q2 2014 Unaudited**	Q2 2013 Unaudited	**1H 2014 Unaudited**	1H 2013 Unaudited
Revenue	**1,905**	1,681	**3,573**	3,148
Adjusted EBITDA[1]	**452**	139	**716**	380
Adjusted EBITDA margin[1]	**23.7%**	8.3%	**20.0%**	12.1%
Net operating income	**350**	41	**516**	195
Net income/(loss)	**265**	(13)	**401**	119
Earnings per share – in $ per share[2]				
Basic	**0.82**	(0.05)	**1.27**	0.35
Diluted	**0.73**	(0.05)	**1.15**	0.34
Weighted average number of common shares	**373.1m**	332.0m	**374.7m**	350.0m

As at (in $ millions)	**30 Jun 2014 Unaudited**	30 Jun 2013 Unaudited
Backlog	**11,197**	10,421
Cash and cash equivalents	**845**	1,084
Borrowings	**919**	1,397

(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:

Second quarter 2014

'The second quarter was another strong quarter for the Group, both operationally and financially. I continue to be pleased overall with our project portfolio execution. Consistent with our previous guidance, the Group's order backlog ended the second quarter at $11.2 billion. Significant escalations on existing contracts mitigated the impact of clients delaying award dates for some of their new projects.

Global vessel utilisation was 91%, which reflects good operational efficiency and a low level of dry-docking and planned maintenance in the period.

Strong operational performance and good progress on the Guará-Lula NE project was evidenced by the installation of all four submerged buoys being completed in the second quarter. Installation of the risers is on-going and is progressing in line with our expectations. The new-build, the *Seven Waves*, commenced operations under contract in Brazil in the middle of the quarter, approximately three months ahead of schedule.

Cash generation was strong in the second quarter, which ended with a cash and cash equivalents balance of $845 million, an increase of $307 million from the end of the first quarter of 2014, reflecting our continued emphasis on optimising working capital.

The Group has now completed the $200 million share repurchase programme announced in October 2013. In the light of continued strong performance, the strength of the balance sheet and confidence in our business, the Board of Directors has authorised a further share repurchase programme of up to $200 million. This decision reaffirms our policy of returning excess cash to shareholders both in the form of share repurchases and dividends.

Operational highlights for the second quarter of 2014

Significant progress was achieved offshore on the OFON 2 and Block 31 GES projects in West Africa, while Erha North and TEN projects moved forward with fabrication. The CLOV project also progressed well with first oil being achieved in June, ahead of the client's schedule.

In the Gulf of Mexico, the Line 60 and 67 projects remained challenging and further costs were recognised in the second quarter, caused in part by the breakdown of a third-party vessel, which has since been replaced with the *Seven Polaris*. Commercial discussions with the client in order to recover costs are expected to be protracted.

In Australia, the Gorgon Heavy Lift and Tie-ins project was in its offshore phase and contributed substantially to revenue in the APME Territory in the period. Also in offshore phase in the Territory was the ONGC G1 project, offshore India.

In Brazil, good operational performance on the Guará-Lula NE project enabled us to complete the installation of the fourth and final submerged buoy system in the second quarter, allowing us to re-deploy the *Seven Polaris* and the *Aker Wayfarer* on other Subsea 7 projects. Riser installation progressed well and 14 of the 27 risers were installed by the end of the quarter. The PLSVs under long-term contract achieved high levels of utilisation in the quarter and the new-build, the *Seven Waves,* commenced operations in mid-May.

In the North Sea, favourable weather conditions further aided what is normally a strong quarter for offshore execution. The main projects that progressed well in the second quarter included Martin Linge, Delta S2 and Knarr in Norway, and Western Isles in the UK. In addition, Life-of-Field activity levels were high, particularly in the UK sector, with an increased level of vessel utilisation in the quarter compared to the prior year period.

Outlook

The guidance we have previously provided for the full year 2014 remains unchanged. We expect Group revenue to increase and Adjusted EBITDA to increase moderately from the level achieved in 2013 after adding back the $355 million full-life project loss provision recognised on the Guará-Lula NE project that year.

Tendering activity remains high in many areas where we operate, which suggests a positive medium- and long-term outlook for our business. However, given the continuing uncertainty over the timing of market awards for a number of large SURF projects, as well as for our Conventional business, it is premature to offer guidance beyond the current year.'

Conference Call Details

Conference Call Information

Lines will open 15 minutes prior to the conference call.

Date: 31 July 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: 31 July 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

For further information, please contact:

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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', '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.

Interim Management Report: Financial Review

Second Quarter 2014

Revenue
Revenue for the quarter was $1.9 billion, an increase of $224 million compared with Q2 2013. The increase primarily reflected higher activity levels in the APME, Brazil and NSC Territories partially offset by a marginal decrease in the AFGOM Territory.

Adjusted EBITDA
Adjusted EBITDA for the quarter was $452 million, an increase of $313 million compared to Q2 2013. Adjusted EBITDA margin was 23.7%, compared with 8.3% in Q2 2013.

Net operating income
Net operating income was $350 million, compared with $41 million in Q2 2013. The improvement was mainly due to approximately $35 million reduction in the full-life project loss on the Guará-Lula NE project being recognised in Q2 2014. This compares with a $300 million increase in the full-life project loss recognised in Q2 2013. The SapuraAcergy and Seaway Heavy Lifting joint ventures' contribution in Q2 2014 was lower than in Q2 2013 due to phasing and mix of projects together with planned vessel dry-docking.

Net income
Net income was $265 million, compared to a net loss of $13 million in Q2 2013. The increase in net income was primarily due to:

- the increase in net operating income;
- foreign currency gains of $10 million in Q2 2014 compared with losses of $11 million in Q2 2013; and
- finance costs of $7 million in Q2 2014 compared to $17 million in Q2 2013, which included finance costs related to the 2013 convertible notes which were redeemed or converted in October 2013

partially offset by:

- a $64 million increase in taxation charge compared to Q2 2013 driven by higher income before taxes.

The effective tax rate for the quarter was 26.9%, compared to an effective tax rate of 167% for Q2 2013. The 2013 tax charge was adversely impacted by the Guará-Lula NE project loss.

Earnings per share
Diluted earnings per share was $0.73 compared to the diluted loss per share of $0.05 in Q2 2013, based on a weighted average number of shares of 373 million and 332 million shares respectively.

Half Year 2014

Revenue
Revenue for the half year ended 30 June 2014 was $3.6 billion (1H 2013: $3.1 billion). The increase primarily reflected higher activity levels in the AFGOM, APME and Brazil Territories partially offset by a modest decrease in the NSC Territory.

Adjusted EBITDA
Adjusted EBITDA was $716 million, an increase of $336 million or 88% compared to 1H 2013. Adjusted EBITDA margin was 20.0% compared to 12.1% in 1H 2013.

Net operating income
Net operating income was $516 million (1H 2013: $195 million). The increase was mainly due to the improved results related to the Guará-Lula NE project offset by a lower contribution from the Seaway Heavy Lifting joint venture due to the planned dry-docking of the *Stanislav Yudin*. Administrative expenses were $148 million in 1H 2014 compared with $141 million in 1H 2013 which benefited from the reversal of a $16 million provision recognised at the date of the business combination in 2011.

Net income
Net income was $401 million, an increase of $283 million compared to 1H 2013. The increase in net income was primarily due to:

- the increase in net operating income; and
- finance costs of $12 million in 1H 2014 compared to $41 million in 1H 2013 which included finance costs associated with the 2013 convertible notes which were redeemed or converted in October 2013

partially offset by:

- a $75 million increase in taxation charge compared to 1H 2013 driven by higher income before taxes.

The effective tax rate for 1H 2014 was 25.0%, compared to an effective tax rate of 33.4% for 1H 2013. The 2013 tax charge was adversely impacted by the Guará-Lula NE project loss.

Earnings per share
Diluted earnings per share was $1.15 compared to $0.34 in 1H 2013, based on a share count of 375 million and 350 million shares respectively.

Cash and cash equivalents
Cash and cash equivalents increased to $845 million at 30 June 2014 from $650 million at 31 December 2013. The movement in cash and cash equivalents was mainly attributable to cash generated from operating activities of $716 million offset by expenditure on property, plant and equipment of $428 million (primarily payments on new-build vessels) and $93 million of share repurchases as part of the Group's $200 million share repurchase plan announced in October 2013.

Borrowings

Borrowings were $919 million at 30 June 2014 compared with $912 million at 31 December 2013.

Territory highlights

Second Quarter 2014

Africa, Gulf of Mexico & Mediterranean (AFGOM)

Revenue was $661 million, a decrease of $8 million compared to Q2 2013. During the quarter the Block 31 GEL and PSVM projects were substantially completed and there was progress on the CLOV, Block 31 GES and Lianzi SURF projects, offshore Angola. In addition there was progress on the OFON 2, OCIP Phase 2 and Erha North projects, offshore Nigeria, T.E.N., offshore Ghana, Heidelberg in the US sector of the Gulf of Mexico and the Line 60 and Line 67 projects, in the Mexican sector of the Gulf of Mexico. Net operating income was $85 million compared to $133 million in Q2 2013. The decrease was partially due to additional costs incurred on the Line 60 and Line 67 projects mainly related to a third party vessel breakdown and field access issues which resulted in schedule changes.

Asia Pacific & Middle East (APME)

Revenue was $243 million, an increase of $101 million compared to Q2 2013. There was significant progress on the Gorgon Heavy Lift and Tie-ins project, offshore Australia and ONGC G1 project, offshore India. Net operating income was $22 million, compared to $33 million in Q2 2013. The decrease in net operating income was mainly due to a reduction in contribution from the SapuraAcergy joint venture as the Gumusut-Kakap project, offshore Malaysia, was in progress during Q2 2013. In Q2 2014 the Gorgon Heavy Lift and Tie-ins project contributed significant revenue although margin recognition was limited due to the relative stage of completion of the offshore campaign.

Brazil (BRAZIL)

Revenue for the quarter was $265 million, which was an increase of $106 million compared to Q2 2013 and included approximately $90 million attributed to the Guará-Lula NE project and approximately $25 million from the settlement of a completed project. The offshore phase of the Guará-Lula NE project continued during the quarter and there were high levels of vessel activity under the long-term PLSV contracts with Petrobras. Net operating income for the quarter was $57 million (Q2 2013: $294 million net operating loss). Installation of the fourth and final buoy and significant progress on the riser installation campaign on the Guará-Lula NE project contributed towards a further de-risking of the project resulting in a reduction in the full-life project loss of approximately $35 million, which was recognised in the quarter. In comparison net operating income in Q2 2013 was impacted by the $300 million increase in the expected full-life loss provision on the Guará-Lula NE project.

North Sea & Canada (NSC)

Revenue was $732 million compared to $705 million in Q2 2013. In Q2 2014, work progressed on the Martin Linge, Delta S2 and Knarr projects, offshore Norway, and the Western Isles, Siri and Laggan Tormore projects, offshore UK. Activity under Life-of-Field frame agreements was at a high level throughout the quarter. Net operating income was $156 million, an increase of $20 million compared to Q2 2013. Vessel utilisation of 93% compared with 88% in Q2 2013 contributed towards the increase in net operating income.

Corporate (CORP)

Revenue was $4 million (Q2 2013: $6 million) with associated net operating income of $30 million (Q2 2013: $32 million net operating income). The reduction in contribution from the Seaway Heavy Lifting joint venture was partially offset by a reduction in operating costs.

Half Year 2014

Africa, Gulf of Mexico & Mediterranean (AFGOM)

Revenue of $1.3 billion was up $132 million compared with 1H 2013. During the period, the Block 31 GEL and PSVM projects substantially completed and there was progress on the CLOV, Block 31 GES, Lianzi SURF and Lianzi Topside projects, offshore Angola. In addition there was progress on the OFON 2, OCIP Phase 2 and Erha North projects, offshore Nigeria, T.E.N, offshore Ghana, Heidelberg in the US sector of the Gulf of Mexico and the Line 60 and Line 67 projects, in the Mexican sector of the Gulf of Mexico. Net operating income was $162 million compared to $219 million in 1H 2013. The period-on-period decrease in net operating income was partially due to additional costs incurred on the Line 60 and Line 67 projects mainly related to third party vessel breakdown and field access issues which resulted in schedule changes.

Asia Pacific & Middle East (APME)

Revenue was $448 million, an increase of $182 million or 69% compared to 1H 2013. There was significant progress on the Gorgon HLTI and Ningaloo projects, offshore Australia, and the ONGC G1 project, offshore India. Net operating income was $33 million, compared to $47 million in 1H 2013 which benefitted from contributions from the Subsea 7 Malaysia joint venture on the Kumang project, offshore Malaysia. The Gorgon Heavy Lift and Tie-ins project contributed significant revenue in 1H 2014 although margin recognition was limited due to the relative stage of completion of the offshore campaign.

Brazil (BRAZIL)

Revenue for the half year ended 30 June 2014 was $496 million, an increase of $120 million compared to 1H 2013. Vessels on long-term service agreements to Petrobras achieved high levels of utilisation. Net operating income was $76 million (1H 2013: net operating loss $315 million). Completion of the installation of the four buoys and significant progress on the riser installation campaign on the Guará-Lula NE project contributed towards a further de-risking of the project in 1H 2014. This resulted in a reduction in the full-life project loss of approximately $35 million, which was recognised in the 1H 2014. In comparison net operating income in 1H 2013 was impacted by the $300 million increase in the expected full-life loss provision on the Guará-Lula NE project.

North Sea & Canada (NSC)

Revenue of $1.3 billion was comparable with 1H 2013. During the period, the Andrew bundle and West Franklin projects, offshore UK, were substantially completed. Work progressed during the period on the Delta S2, Knarr, Martin Linge, and Aasta Hansteen projects, offshore Norway and the Laggan Tormore, Western Isles and Montrose projects, offshore UK. Activity under Life-of-Field frame agreements was at a high level in the period, particularly in the second quarter. Net operating income was $229 million (1H 2013: $221 million).

Corporate (CORP)

Revenue was $9 million (1H 2013: $8 million). Net operating income was $16 million (1H 2013: $23 million), with the reduction driven by a decreased contribution from the Seaway Heavy Lifting joint venture partially offset by lower operating costs.

Asset Development and Activities – Second Quarter 2014

Fleet Utilisation

Vessel utilisation during the second quarter was 91% compared with 86% in Q2 2013, this reflected high levels of utilisation across all four Territories.

New-build vessel programme capital expenditure

The *Seven Waves,* a new-build flexible pipelay support vessel (PLSV) for Brazil, commenced operations during the quarter. 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 30 June 2014 was:

	Actual expenditure			Forecast expenditure			
(in $ millions)	2012	2013	1H 2014	Q3-Q4 2014	2015	2016	Total
Total	185	372	267	300	640	210	1,974

This includes the construction of the four PLSVs to operate under long-term contracts with Petrobras in Brazil (the *Seven Waves, Seven Rio*, *Seven Sun* and *Seven Cruzeiro*), and 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 $11.2 billion at 30 June 2014, a decrease of $0.4 billion or 3% compared to 31 March 2014. Significant contracts awarded in Q2 2014 included the Catcher project, offshore UK and a contract with BP for Life-of-Field services in the US Gulf of Mexico.

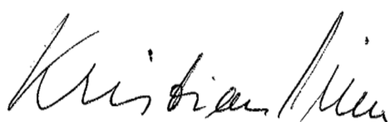
$8.9 billion of the backlog at 30 June 2014 related to SURF activity, $1.1 billion to Life-of-Field, $0.5 billion to Conventional and Hook-up and $0.7 billion to i-Tech. $3.3 billion of this backlog is expected to be executed in 2014, $3.8 billion in 2015 and $4.1 billion in 2016 and thereafter. Backlog related to associates and joint ventures is excluded from these amounts.

Risks and uncertainties

The principal risks and uncertainties which could materially adversely impact the Group's reputation, operations and/or financial performance and position are noted on pages 40 to 43 of Subsea 7 S.A.'s Annual Report and Consolidated Financial Statements 2013. The Executive Management Team has considered the principal risks and uncertainties and concluded that these have not changed significantly in the six month period to 30 June 2014.

Responsibility statement

We confirm that, to the best of our knowledge, the financial statements for the period 1 January 2014 to 30 June 2014 have been prepared in accordance with current applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the Group taken as a whole. We also confirm that, to the best of our knowledge, this report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties facing the Group.



Kristian Siem
Chairman

Jean Cahuzac
Chief Executive Officer

Subsea 7 S.A.

Condensed Consolidated Income Statement

(in $ millions, except per share data)	Second Quarter		Half Year	
	Q2 2014 Unaudited	Q2 2013 Unaudited	1H 2014 Unaudited	1H 2013 Unaudited
Revenue	1,905.1	1,680.5	3,573.0	3,147.6
Operating expenses	(1,515.3)	(1,636.3)	(2,952.3)	(2,889.1)
Gross profit	389.8	44.2	620.7	258.5
Administrative expenses	(67.1)	(65.7)	(147.9)	(141.3)
Share of net income of associates and joint ventures	27.1	62.1	42.8	77.6
Net operating income	349.8	40.6	515.6	194.8
Finance income	8.9	6.9	13.0	14.0
Other gains and losses	10.5	(10.8)	18.9	10.5
Finance costs	(7.0)	(16.7)	(12.1)	(41.4)
Income before taxes	362.2	20.0	535.4	177.9
Taxation	(97.6)	(33.4)	(134.0)	(59.4)
Net income/(loss)	264.6	(13.4)	401.4	118.5
Net income attributable to:				
Shareholders of the parent company	270.3	(17.3)	423.0	116.3
Non-controlling interests	(5.7)	3.9	(21.6)	2.2
	264.6	(13.4)	401.4	118.5

Earnings per share	$ per share	$ per share	$ per share	$ per share
Basic	0.82	(0.05)	1.27	0.35
Diluted	0.73	(0.05)	1.15	0.34

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Condensed Consolidated Statement of Comprehensive Income

(in $ millions)	Second Quarter		Half Year	
	Q2 2014 Unaudited	Q2 2013 Unaudited	1H 2014 Unaudited	1H 2013 Unaudited
Net income/(loss)	264.6	(13.4)	401.4	118.5
Other comprehensive income				
Items that may be reclassified to the income statement in subsequent periods:				
Foreign currency translation	74.8	21.0	123.0	(214.1)
Cash flow hedges:				
Net fair value (losses)/ gains arising	(2.3)	10.2	(0.2)	(9.6)
Reclassification adjustments for amounts recognised in the Consolidated Income Statement	(9.1)	(0.2)	(10.7)	(0.5)
Adjustments for amounts transferred to the initial carrying amounts of hedged items	–	2.0	0.2	2.2
Share of other comprehensive income of associates and joint ventures	1.0	4.6	2.0	7.1
Tax relating to components of other comprehensive income which may be reclassified	4.4	(1.0)	0.6	11.1
Other comprehensive income/(loss)	68.8	36.6	114.9	(203.8)
Total comprehensive income/(loss)	333.4	23.2	516.3	(85.3)
Total comprehensive income attributable to:				
Shareholders of the parent company	338.4	19.1	537.1	(87.7)
Non-controlling interests	(5.0)	4.1	(20.8)	2.4
	333.4	23.2	516.3	(85.3)

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Condensed Consolidated Balance Sheet

As at (in $ millions)	30 Jun 2014 Unaudited	31 Dec 2013 Audited
Assets		
Non-current assets		
Goodwill	2,649.4	2,584.6
Intangible assets	20.3	24.6
Property, plant and equipment	4,374.8	4,098.0
Interest in associates and joint ventures	336.6	310.7
Advances and receivables	141.6	136.3
Derivative financial instruments	9.7	18.1
Deferred tax assets	49.7	48.4
	7,582.1	7,220.7
Current assets		
Inventories	47.6	43.5
Trade and other receivables	1,097.8	1,008.0
Derivative financial instruments	38.1	41.8
Assets classified as held for sale	387.0	394.8
Construction contracts – assets	487.4	575.0
Other accrued income and prepaid expenses	400.3	404.0
Restricted cash	20.0	20.0
Cash and cash equivalents	844.6	649.5
	3,322.8	3,136.6
Total assets	10,904.9	10,357.3
Equity		
Issued share capital	703.6	703.6
Treasury shares	(438.9)	(356.9)
Paid in surplus	3,646.1	3,841.6
Equity reserve	248.4	248.5
Translation reserve	153.8	31.9
Other reserves	(67.3)	(59.5)
Retained earnings	2,577.6	2,156.5
Equity attributable to shareholders of the parent company	6,823.3	6,565.7
Non-controlling interests	20.1	46.5
Total equity	6,843.4	6,612.2
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	644.3	636.3
Retirement benefit obligations	19.8	19.1
Deferred tax liabilities	149.0	169.7
Provisions	35.7	35.5
Contingent liability recognised	7.3	6.8
Derivative financial instruments	13.4	12.6
Other non-current liabilities	17.9	14.6
	887.4	894.6
Current liabilities		
Trade and other liabilities	2,019.9	1,637.4
Derivative financial instruments	10.3	9.1
Current tax liabilities	161.9	111.2
Current portion of borrowings	275.0	275.4
Liabilities directly associated with assets classified as held for sale	204.6	194.5
Provisions	20.2	19.0
Construction contracts – liabilities	477.1	600.7
Deferred revenue	5.1	3.2
	3,174.1	2,850.5
Total liabilities	4,061.5	3,745.1
Total equity and liabilities	10,904.9	10,357.3

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Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

(in $ millions, Unaudited)	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	–	–	–	–	–	–	423.0	423.0	(21.6)	401.4
Exchange differences	–	–	–	–	122.2	–	–	122.2	0.8	123.0
Cash flow hedges	–	–	–	–	–	(10.7)	–	(10.7)	–	(10.7)
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	2.0	–	2.0	–	2.0
Tax relating to components of other comprehensive income	–	–	–	–	(0.3)	0.9	–	0.6	–	0.6
Total comprehensive income	–	–	–	–	121.9	(7.8)	423.0	537.1	(20.8)	516.3
Transactions with owners										
Shares repurchased	–	(84.8)	–	–	–	–	–	(84.8)	–	(84.8)
Dividends declared	–	–	(200.0)	–	–	–	–	(200.0)	(5.6)	(205.6)
Share-based compensation	–	–	4.5	–	–	–	–	4.5	–	4.5
Shares reissued	–	2.8	–	–	–	–	–	2.8	–	2.8
Equity component of convertible notes	–	–	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Loss on reissuance of treasury shares	–	–	–	–	–	–	(1.9)	(1.9)	–	(1.9)
Total transactions with owners	–	(82.0)	(195.5)	(0.1)	–	–	(1.9)	(279.5)	(5.6)	(285.1)
Balance at 30 June 2014	703.6	(438.9)	3,646.1	248.4	153.8	(67.3)	2,577.6	6,823.3	20.1	6,843.4

For the six months ended 30 June 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	–	–	–	–	–	–	116.3	116.3	2.2	118.5
Exchange differences	–	–	–	–	(214.3)	–	–	(214.3)	0.2	(214.1)
Cash flow hedges	–	–	–	–	–	(7.9)	–	(7.9)	–	(7.9)
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	7.1	–	7.1	–	7.1
Tax relating to components of other comprehensive income	–	–	–	–	7.9	3.2	–	11.1	–	11.1
Total comprehensive income	–	–	–	–	(206.4)	2.4	116.3	(87.7)	2.4	(85.3)
Transactions with owners										
Dividends declared	–	–	–	–	–	–	(199.3)	(199.3)	–	(199.3)
Share-based compensation	–	–	4.1	–	–	–	–	4.1	–	4.1
Shares reissued	–	3.0	–	–	–	–	–	3.0	–	3.0
Vesting of share –based payments	–	–	(8.8)	–	–	–	8.8	–	–	–
Loss on reissuance of treasury shares	–	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Total transactions with owners	–	3.0	(4.7)	–	–	–	(192.1)	(193.8)	–	(193.8)
Balance at 30 June 2013	703.6	(440.9)	3,877.1	359.2	(162.4)	(78.9)	1,785.3	6,043.0	46.2	6,089.2

Subsea 7 S.A.

Condensed Consolidated Cash Flow Statement

(in $ millions)	Half Year 1H 2014 Unaudited	1H 2013 Unaudited
Net cash generated from operating activities	715.8	464.6
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	0.4	8.8
Purchases of property, plant and equipment	(427.8)	(334.7)
Purchases of intangible assets	–	(2.4)
Interest received	13.0	14.0
Dividends received from associates and joint ventures	17.3	4.1
Investment in associates and joint ventures	(0.1)	(1.4)
Net cash used in investing activities	(397.2)	(311.6)
Cash flows from financing activities		
Interest paid	(13.7)	(26.4)
Repayments of borrowings	–	(158.1)
Shares repurchased	(93.4)	–
Loan repayments from joint ventures	–	(115.3)
Proceeds from reissuance of treasury shares	0.9	1.4
Net cash used in financing activities	(106.2)	(298.4)
Net increase/(decrease) in cash and cash equivalents	212.4	(145.4)
Cash and cash equivalents at beginning of period	649.5	1,287.9
Effect of foreign exchange rate movements on cash and cash equivalents	2.6	(8.3)
Increase in restricted cash balances	–	(20.0)
Increase in cash balances classified as assets held for sale	(19.9)	(30.1)
Cash and cash equivalents at end of period	844.6	1,084.1

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 30 July 2014.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period 1 January 2014 to 30 June 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, pipeline fabrication spoolbases in Vigra, Norway and Leith, Scotland, 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 30 June 2014

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	**660.6**	**243.0**	**265.2**	**732.3**	**4.0**	**1,905.1**
Net operating income from operations	**85.1**	**22.0**	**56.5**	**156.4**	**29.8**	**349.8**
Finance income						**8.9**
Other gains and losses						**10.5**
Finance costs						**(7.0)**
Income before taxes						**362.2**

For the three months ended 30 June 2013

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	669.2	141.9	159.0	704.7	5.7	1,680.5
Net operating income/(loss) from operations	133.4	32.9	(293.6)	135.7	32.2	40.6
Finance income						6.9
Other gains and losses						(10.8)
Finance costs						(16.7)
Income before taxes						20.0

For the six months ended 30 June 2014

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	1,330.0	447.6	495.8	1,290.3	9.3	3,573.0
Net operating income from operations	161.7	33.4	75.5	228.9	16.1	515.6
Finance income						13.0
Other gains and losses						18.9
Finance costs						(12.1)
Income before taxes						535.4

For the six months ended 30 June 2013

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	1,198.1	265.3	375.8	1,300.4	8.0	3,147.6
Net operating income/(loss) from operations	219.4	47.4	(315.2)	220.5	22.7	194.8
Finance income						14.0
Other gains and losses						10.5
Finance costs						(41.4)
Income before taxes						177.9

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:

	Second Quarter		Half Year	
For the period (in $ millions, except share and per share data)	Q2 2014 Unaudited	Q2 2013 Unaudited	1H 2014 Unaudited	1H 2013 Unaudited
Net income attributable to shareholders of the parent company	270.3	(17.3)	423.0	116.3
Interest on convertible bonds and convertible notes (net of amounts capitalised)	3.5	–	6.8	3.7
Earnings used in the calculation of diluted earnings per share	273.8	(17.3)	429.8	120.0

	Second Quarter		Half Year	
For the period (number of shares)	Q2 2014 Unaudited	Q2 2013 Unaudited	1H 2014 Unaudited	1H 2013 Unaudited
Weighted average number of common shares used in the calculation of basic earnings per share	330,835,613	332,001,439	332,457,336	331,842,919
Convertible bonds and convertible notes	41,308,237	–	41,287,083	16,923,077
Share options, performance shares and restricted shares	946,907	–	979,297	1,203,779
Weighted average number of common shares used in the calculation of diluted earnings per share	373,090,757	332,001,439	374,723,716	349,969,775

	Second Quarter		Half Year	
For the period (in $ per share)	Q2 2014 Unaudited	Q2 2013 Unaudited	1H 2014 Unaudited	1H 2013 Unaudited
Basic earnings per share	0.82	(0.05)	1.27	0.35
Diluted earnings per share	0.73	(0.05)	1.15	0.34

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:

	Second Quarter		Half Year	
For the period (number of shares)	Q2 2014 Unaudited	Q2 2013 Unaudited	1H 2014 Unaudited	1H 2013 Unaudited
Convertible loan notes	–	63,391,519	–	46,468,442
Share options, performance shares and restricted shares	2,131,283	2,996,215	2,135,580	1,950,385

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 and as adopted by 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:

	Second Quarter		Half Year	
For the period (in $ millions)	Q2 2014 Unaudited	Q2 2013 Unaudited	1H 2014 Unaudited	1H 2013 Unaudited
Net operating income	**349.8**	40.6	**515.6**	194.8
Depreciation, amortisation and mobilisation	**98.0**	87.5	**195.3**	175.0
Impairment	**4.4**	10.6	**5.2**	9.8
Adjusted EBITDA	**452.2**	138.7	**716.1**	379.6
Revenue	**1,905.1**	1,680.5	**3,573.0**	3,147.6
Adjusted EBITDA %	**23.7%**	8.3%	**20.0%**	12.1%

Reconciliation to net income:

	Second Quarter		Half Year	
For the period (in $ millions)	Q2 2014 Unaudited	Q2 2013 Unaudited	1H 2014 Unaudited	1H 2013 Unaudited
Net income/(loss)	**264.6**	(13.4)	**401.4**	118.5
Depreciation, amortisation and mobilisation	**98.0**	87.5	**195.3**	175.0
Impairment	**4.4**	10.6	**5.2**	9.8
Finance income	**(8.9)**	(6.9)	**(13.0)**	(14.0)
Other gains and losses	**(10.5)**	10.8	**(18.9)**	(10.5)
Finance costs	**7.0**	16.7	**12.1**	41.4
Taxation	**97.6**	33.4	**134.0**	59.4
Adjusted EBITDA	**452.2**	138.7	**716.1**	379.6
Revenue	**1,905.1**	1,680.5	**3,573.0**	3,147.6
Adjusted EBITDA %	**23.7%**	8.3%	**20.0%**	12.1%

9. Dividends

A final dividend of NOK 3.60 per common share that related to the year ended 31 December 2013 was approved by the shareholders at the Annual General Meeting on 27 June 2014 and recognised in shareholders' equity in June 2014. The final dividend was paid in July 2014 to shareholders of record as of 2 July 2014.

10. Goodwill

The movement in goodwill during the period was as follows:

	Half Year	
(in $ millions)	1H 2014 Unaudited	1H 2013 Unaudited
At period beginning	**2,584.6**	2,574.8
Exchange differences	**64.8**	(82.5)
At period end	**2,649.4**	2,492.3

11. Property, plant and equipment

Significant additions to property, plant and equipment for the six months ended 30 June 2014 included $224 million expenditure related to the new-build vessel programme. This included the following significant additions:

- $61 million expenditure on the PLSV, the *Seven Sun*
- $69 million expenditure on the PLSV, the *Seven Rio*
- $48 million expenditure on the PLSV, the *Seven Waves*
- $36 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 30 June 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. The Group expects that the sale will complete, as anticipated at the agreed price, 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 $4.4 million was recognised in the quarter ended 30 June 2014 (Q2 2013: $2.3 million). The impairment was recognised in the Condensed Consolidated Income Statement in operating expenses. The cumulative impairment charge at 30 June 2014 was $24.2 million (31 December 2013: $19.0 million).

13. Treasury shares

At 30 June 2014, the Group owned 18,854,817 common shares as treasury shares, representing 5.4% 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 681,967 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.

111,907 share options were exercised in the second quarter 2014 generating proceeds of $0.9 million. During the quarter 710 treasury shares were used to satisfy share-based awards which vested. No new common shares were issued.

14. Share repurchase plan

During the second quarter 2014, the Group continued with its $200 million share repurchase programme initiated in October 2013 and repurchased 1,139,258 shares for a total consideration of $20.1 million. As at 30 June 2014, the Group had repurchased a cumulative 9,432,635 shares for a total consideration of $176.0 million.

15. Commitments and contingent liabilities

Commitments

As at 30 June 2014, significant capital commitments that the Group had entered into related to:

- contracts totalling approximately $577 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 $211 million relating to the new-build heavy construction vessel, the *Seven Arctic*. The vessel is scheduled to be delivered in 2016
- contracts totalling approximately $89 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 30 June 2014 amounted to BRL 661.4 million ($299.5 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 prospect of any payment is possible but 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 30 June 2014 was $7.3 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)	Half Year 1H 2014 Unaudited	 1H 2013 Unaudited
Cash flow from operating activities:		
Income before taxes	535.4	177.9
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	182.6	166.6
Net impairment	5.2	9.8
Amortisation of intangible assets	5.5	4.7
Mobilisation costs	7.2	3.7
Adjustments for investing and financing items:		
Share in net income of associates and joint ventures	(42.8)	(77.6)
Finance income	(13.0)	(14.0)
Finance costs	12.1	41.4
Loss/(gain) on disposal of property, plant and equipment	0.3	(12.6)
Adjustments for equity items:		
Share-based payments	4.5	4.1
	697.0	304.0
Changes in operating assets and liabilities:		
Increase in inventories	(2.9)	(1.7)
Decrease/(increase) in operating receivables	87.4	(69.7)
Increase in operating liabilities	66.3	306.6
	150.8	235.2
Income taxes paid	(132.0)	(74.6)
Net cash generated from operating activities	715.8	464.6

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)	30 Jun 2014 Carrying amount Unaudited	30 Jun 2014 Fair value Unaudited	31 Dec 2013 Carrying amount Audited	31 Dec 2013 Fair value Audited
Financial liabilities				
Borrowings – convertible bonds – Level 2	(919.3)	(950.0)	(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 0.7% to 2.4%. (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)	30 Jun 2014 Level 2 Unaudited	30 Jun 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	32.3	–	33.5	–
Derivative instruments in designated hedge accounting relationships	15.5	–	26.4	–
Financial liabilities:				
Financial liabilities at fair value through profit or loss - derivative instruments	(21.8)	–	(17.2)	–
Derivative instruments in designated hedge accounting relationships	(1.9)	–	(4.5)	–
Non-recurring fair value measurements				
Assets classified as held for sale	–	182.4	–	200.3

During the period ended 30 June 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. Related party transactions

At 30 June 2014, 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 half year ended 30 June 2014, in addition to normal trading transactions, the Group entered into a charter hire agreement with Siem Offshore Inc. for the hire of their new-build construction vessel the *Siem Stingray*. This transaction was executed on arm's length terms.

19. Post balance sheet events

Share repurchase plan

Between 1 July 2014 and 28 July 2014, the Group repurchased a further 1,277,680 shares for a total consideration of $22.8 million in relation to the share repurchase programme announced in October 2013. The cumulative number of shares repurchased as part of this programme was 10,710,315 for a total consideration of $198.8 million. There will be no further share repurchases under this programme.

On 31 July 2014, the Group announced a further share repurchase programme 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 common shares, net of the common shares previously repurchased and still held as treasury shares.