Subsea 7 S.A. Announces Third Quarter 2014 Results

Luxembourg – 12 November 2014 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC) announced today results for the third quarter which ended on 30 September 2014. Unless otherwise stated, the comparative period is the nine months ended 30 September 2013. The Group's reporting segments are set out in Note 6 'Segment information'.

	Three Months Ended		**Nine Months Ended**	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**30 Sep 2014 Unaudited**	30 Sep 2013 Unaudited	**30 Sep 2014 Unaudited**	30 Sep 2013 Unaudited
Revenue	**1,902**	1,564	**5,475**	4,711
Adjusted EBITDA(1)	**426**	359	**1,142**	739
Adjusted EBITDA margin(1)	**22.4%**	23.0%	**20.9%**	15.7%
Net operating income	**324**	269	**840**	464
Net income	**206**	160	**607**	278
Earnings per share – in $ per share(2)				
Basic	**0.64**	0.46	**1.91**	0.81
Diluted	**0.57**	0.42	**1.72**	0.77
Weighted average number of common shares	**372.9m**	398.0m	**374.3m**	373.7m

As at (in $ millions)	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
Backlog	**9,430**	11,800
Cash and cash equivalents	**662**	953
Borrowings	**844**	1,406

(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:

I am pleased to report that we continued to deliver strong operational performance in the third quarter of 2014, which supported the solid financial results.

Global vessel utilisation was strong at 91% and was five percentage points higher than in the third quarter of 2013, matching the high level achieved in the second quarter of this year.

Significant net cash was generated from operating activities in the third quarter. This supported continuing payments under our new vessel construction programme, returns to investors in the form of a dividend and the repurchase of shares and convertible bonds.

Order backlog declined in the third quarter, owing to a low level of order intake caused by the postponement of a number of potential market awards, a low level of escalations on existing contracts and a negative foreign exchange impact of approximately $300 million.

Operational highlights for the third quarter of 2014

In AFGOM, the Block 31 GES and CLOV projects were substantially completed while good progress was made on the Lianzi Topside and Lianzi SURF projects, offshore Angola. Other major projects with significant progress in the quarter included OFON 2 and Erha North, offshore Nigeria; TEN, offshore Ghana; Cardona and Heidelberg in the US Gulf of Mexico. In Mexico the Line 60 project was completed and the Line 67 project was close to completion.

The main projects being executed in APME were the Gorgon Heavy Lift and Tie-ins, Bayu Undan and Ningaloo projects, offshore Australia, and the G1 project, offshore India, all of which progressed satisfactorily.

In Brazil, we continued to achieve high levels of utilisation and operational performance with our PLSV fleet under their long-term contracts. The *Seven Waves* performed well in its first full quarter of service. Substantial progress was made with the riser installation campaign on the Guará-Lula NE project. At the end of the third quarter, 22 of the 27 risers had been successfully installed and the offshore phase remains on track to complete by year end. As a consequence of continued good execution and further de-risking of the project, the full-life project loss provision was reduced by approximately $40 million in the quarter.

In the North Sea and Canada, the Delta S2 project, offshore Norway, the West Franklin and Caisson repair projects, offshore UK, and the Suncor Phase 4 project, offshore Canada, were substantially completed. Good progress was achieved on the Martin Linge and Knarr projects, offshore Norway, and the Western Isles, Montrose, Clair Ridge, Enochdhu and Laggan Tormore projects, offshore UK. Our Life-of-Field business in the North Sea continued with a high level of activity throughout the third quarter. Vessel utilisation across the NSC fleet was high at 93% compared with 92% in the third quarter 2013.

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 in that year.

As we have indicated consistently throughout 2014, uncertainty remains over the timing of market awards for most large SURF projects. This trend was particularly evident in the third quarter when a number of potential market awards were postponed to 2015 and beyond. The decline in crude oil prices, which began at the start of the third quarter, is adding to the uncertainty over our clients' timing to proceed with offshore field development projects.

Our order backlog and execution plans for projects underway provide us with a sound basis for 2015 despite the deferral of awards to the market that the industry is currently experiencing.

Conference Call Details

Conference Call Information

Lines will open 15 minutes prior to the conference call.

Date: 12 November 2014

Time: 12:00 UK Time

Conference ID: 35490095#

	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 651228#) will be available for a 30 day period from:

Date: 12 November 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

Third Quarter 2014

Revenue

Revenue for the quarter was $1.9 billion, an increase of $338 million compared with Q3 2013. The increase reflected higher activity levels across all Territories, particularly in APME and NSC.

Adjusted EBITDA

Adjusted EBITDA for the quarter was $426 million, an increase of $67 million compared to Q3 2013. Adjusted EBITDA margin was 22.4%, compared with 23.0% in Q3 2013.

Net operating income

Net operating income was $324 million, compared with $269 million in Q3 2013. The year-on-year improvement was mainly attributable to Brazil due to high utilisation across the PLSV fleet in addition to approximately $40 million reduction in the full-life project loss on the Guará-Lula NE project being recognised in Q3 2014. The improvements in net operating income were partially offset by lower net operating income in AFGOM and Corporate. Administrative expenses were $86 million, which included an $11 million provision related to the rationalisation of office facilities in Norway. This compared with $74 million in Q3 2013.

Net income

Net income was $206 million, compared to $160 million in Q3 2013. The increase in net income was primarily due to:

- the increase in net operating income;
- finance costs of $6 million in Q3 2014 compared to $17 million in Q3 2013. In Q3 2014 there was a higher amount of capitalised interest due to the relative stage of completion of the new-build vessels under construction, whereas Q3 2013 included finance costs related to the 2013 2.25% convertible notes which matured in October of that year; and
- foreign currency losses of $35 million in Q3 2014 compared with losses of $38 million in Q3 2013.

This was partially offset by:

- a $23 million increase in taxation charge compared to Q3 2013 driven by higher income before taxes.

The effective tax rate for the quarter was 29%, compared to an effective tax rate of 27% for Q3 2013.

Earnings per share

Diluted earnings per share was $0.57 compared to $0.42 in Q3 2013, based on a weighted average number of shares of 373 million and 398 million shares respectively. The 25 million reduction in the weighted average number of shares reflected the maturity of the 2013 2.25% convertible notes and shares acquired under the Group's share repurchase programmes.

Nine months ended 30 September 2014

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

Revenue

Revenue for the nine months ended 30 September 2014 was $5.5 billion (2013: $4.7 billion). The increase reflected higher activity levels across all Territories.

Adjusted EBITDA

Adjusted EBITDA was $1.1 billion, an increase of $403 million compared to 2013. Adjusted EBITDA margin was 20.9% compared to 15.7% in 2013.

Net operating income

Net operating income was $840 million (2013: $464 million). The improvement was mainly due to approximately $75 million reduction in the full-life project loss on the Guará-Lula NE project being recognised in the nine months ended 30 September 2014. This compared with a $300 million increase in the full-life project loss recognised in 2013. This reduction in the full-life project loss was partially offset by lower contributions from the Seaway Heavy Lifting and SapuraAcergy joint ventures. Administrative expenses were $234 million for the nine months ended 30 September 2014, which included an $11 million provision related to the rationalisation of office facilities in Norway. This compared with administrative expenses of $215 million in 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 $607 million, an increase of $329 million compared to 2013. The increase in net income was primarily due to:

- the increase in net operating income;
- foreign currency losses of $17 million in the nine months ended 30 September 2014 compared with losses of $41 million in 2013; and
- finance costs of $18 million in the nine months ended 30 September 2014 compared to $58 million in 2013, this included finance costs associated with the 2013 2.25% convertible notes which were redeemed or converted in October 2013. In the nine months ended 30 September 2014 there was a higher amount of capitalised interest due to the relative stage of completion of the new-build vessels under construction.

partially offset by:

- a $98 million increase in taxation charge compared to 2013 mainly driven by higher income before taxes.

The effective tax rate for the nine months ended 30 September 2014 was 26%, compared to an effective tax rate of 30% for 2013. The 2013 effective tax rate was adversely impacted by an increase in the full-life project loss provision recognised on the Guará-Lula NE project, whereas the 2014 effective tax rate was favourably impacted by the decrease in the full-life project loss on the Guará-Lula NE project.

Earnings per share
Diluted earnings per share was $1.72 compared to $0.77 in 2013, based on a share count of 374 million shares in both years.

Cash and cash equivalents
Cash and cash equivalents increased to $662 million at 30 September 2014 from $650 million at 31 December 2013. The cash generated from operating activities of $1,070 million was offset by:

- $635 million expenditure on property, plant and equipment primarily comprising payments on new-build vessels
- $122 million of share repurchases as part of the Group's share repurchase programmes
- $195 million of dividends paid to shareholders of Subsea 7 S.A; and
- repurchase of $79 million of the $275 million 3.5% convertible bonds due 13 October 2014.

Borrowings

Borrowings were $844 million at 30 September 2014 compared with $912 million at 31 December 2013.

Territory highlights

Third Quarter 2014

Africa, Gulf of Mexico & Mediterranean (AFGOM)
Revenue was $624 million, an increase of $41 million compared to Q3 2013. During the quarter the Block 31 GES and Clov projects were substantially completed and there was progress on the Lianzi Topside and Lianzi SURF projects, offshore Angola. In addition there was progress on the OFON 2 and Erha North projects offshore Nigeria; the T.E.N. project offshore Ghana; Cardona and Heidelberg projects 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 $83 million compared to $94 million in Q3 2013. The decrease in net operating income resulted mainly from the timing of the Lianzi and Erha projects in West Africa which were executing the early stages of their offshore phases during the quarter together with remaining costs incurred on the Line 67 project due to field access issues and schedule changes.

Asia Pacific & Middle East (APME)
Revenue was $246 million, an increase of $173 million compared to Q3 2013. There was significant progress on the Gorgon Heavy Lift and Tie-ins, Bayu Undan and Ningaloo projects, offshore Australia and the G1 project, offshore India. Net operating income was $35 million, compared to $30 million in Q3 2013. The increase in net operating income was mainly due to higher project activity in the quarter, partially offset by a lower contribution from the SapuraAcergy joint venture compared to Q3 2013 which benefitted from high activity levels on the Gumusut Kakap project. The Gorgon Heavy Lift and Tie-ins project continued to contribute significant revenue with limited margin recognition due to the relative stage of completion of the offshore campaign.

Brazil (BRAZIL)
Revenue for the quarter was $249 million, which was an increase of $17 million compared to Q3 2013. 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 $88 million (Q3 2013: $10 million). The increase in net operating income was due to the high utilisation of the PLSV fleet, and a further reduction in the Guará-Lula NE full-life project loss of approximately $40 million reflecting a further de-risking of the project due to significant progress in executing the riser installation campaign.

North Sea & Canada (NSC)
Revenue was $784 million compared to $670 million in Q3 2013. In Q3 2014 the Delta S2 project offshore Norway; the West Franklin and Caisson repair projects, offshore UK; and the Suncor Phase 4 project offshore Canada, were substantially completed. Work progressed on the Martin Linge and Knarr projects, offshore Norway, and the Western Isles, Montrose, Clair Ridge, Enochdhu and Laggan Tormore projects, offshore UK. Activity under Life-of-Field frame agreements was at a high level throughout the quarter with vessel utilisation across the NSC fleet of 93% compared with 92% in Q3 2013. Net operating income was $109 million, a decrease of $2 million compared to Q3 2013. Net operating income was adversely impacted by an $11 million provision related to the rationalisation of office facilities in Norway.

Corporate (CORP)
Net operating income was $10 million (Q3 2013: $24 million). The decrease in net operating income was mainly due to a reduction in the contribution from the Seaway Heavy Lifting joint venture due to lower year-on-year activity in the renewables sector.

Nine months ended 30 September 2014

Africa, Gulf of Mexico & Mediterranean (AFGOM)
Revenue of $2.0 billion was up $173 million compared with 2013. During the period the CLOV, Block 31 GEL, Block 31 GES and Block 31 PSVM projects, offshore Angola, were substantially completed. There was progress on the 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; the T.E.N project, offshore Ghana; the Heidelberg, Tubular Bells and Cardona projects 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 $245 million compared to $313 million in 2013. The period-on-period decrease in net operating income was partially due to additional costs incurred in 2014 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 $694 million, an increase of $356 million compared to 2013. During the period the Gorgon Umbilical and Ningaloo projects, offshore Australia, were substantially completed. There was significant progress on the Gorgon HLTI project, offshore Australia, and the ONGC G1 project, offshore India. Net operating income was $69 million, compared to $78 million in 2013 with the 2014 increase in activity being more than offset by lower contributions from both the SapuraAcergy and Subsea 7 Malaysia joint ventures which had higher activity levels in 2013 on the Gumusut-Kakap and Kumang projects respectively. The Gorgon Heavy Lift and Tie-ins project contributed significant revenue in the nine months ended 30 September 2014, although margin recognition was limited due to the relative stage of completion of the offshore campaign.

Brazil (BRAZIL)

Revenue for the nine months ended 30 September 2014 was $745 million, an increase of $137 million compared to 2013. Vessels under the long-term PLSV contracts to Petrobras achieved high levels of utilisation and the new-build Seven Waves commenced operation in May 2014. Net operating income was $163 million (2013: net operating loss $305 million). During the period the Sapinhoá and Lula project was substantially completed. On the Guará-Lula NE project, installation of the four buoys was completed and significant progress was made on the riser installation campaign. This contributed towards a further de-risking of the project and led to a reduction in the full-life project loss of approximately $75 million, being recognised in the period. In comparison net operating income in 2013 was impacted by a $300 million increase in the expected full-life loss provision on the Guará-Lula NE project.

North Sea & Canada (NSC)

Revenue for the nine months ended 30 September 2014 was $2.1 billion an increase of $104 million compared to 2013 driven by favourable weather conditions and high vessel utilisation. During the period, the Andrew, West Franklin and Caisson repair projects, offshore UK; the Delta S2 project, offshore Norway; and the Suncor Phase 4 project, offshore Canada, were substantially completed. Work progressed during the period on the Knarr, Martin Linge, and Aasta Hansteen projects, offshore Norway, and on the Laggan Tormore, Western Isles, Clair Ridge, Enochdhu and Montrose projects, offshore UK. Activity under Life-of-Field frame agreements was at a high level in the period. Net operating income was $338 million (2013: $332 million).

Corporate (CORP)

Revenue was $8 million (2013: $14 million). Net operating income was $26 million (2013: $47 million), with the reduction driven by a decreased contribution from the Seaway Heavy Lifting joint venture due to lower activity in the renewable sector. This was partially offset by lower operating and administrative costs.

Asset Development and Activities – Third Quarter 2014

Fleet Utilisation

Vessel utilisation during the third quarter was 91% compared with 86% in Q3 2013, this reflected high levels of utilisation across all four Territories.

New-build vessel programme capital expenditure

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 September 2014 was:

	Actual expenditure			Forecast expenditure		
(in $ millions)	2012	2013	YTD 2014	Q4 2014	2015	2016
Total	185	372	397	225	595	215

Actual and forecast expenditures include an estimate of capitalised interest during construction as part of the initial cost of the vessels.

Backlog

The Group had a backlog of $9.4 billion at 30 September 2014, a decrease of $1.8 billion or 16% compared to 30 June 2014. Significant contracts awarded in Q3 2014 included the Baobab project, offshore Ivory Coast. During the quarter backlog was adversely impacted by foreign exchange movements of $0.3 billion, this was mainly related to contracts denominated in the Brazilian Real and Sterling, both currencies weakened relative to the US Dollar during the quarter.

$7.5 billion of the backlog at 30 September 2014 related to SURF activity (including $3.1 billion related to PLSV contracts in Brazil), $0.9 billion to Life-of-Field, $0.4 billion to Conventional and Hook-up and $0.6 billion to i-Tech. $1.6 billion of this backlog is expected to be executed in the remainder of 2014, $3.8 billion in 2015 and $4.0 billion in 2016 and thereafter. Backlog related to associates and joint ventures is excluded from these amounts.

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Condensed Consolidated Income Statement

(in $ millions, except per share data)	Three Months Ended 30 Sep 2014 Unaudited	Three Months Ended 30 Sep 2013 Unaudited	Nine Months Ended 30 Sep 2014 Unaudited	Nine Months Ended 30 Sep 2013 Unaudited
Revenue	1,901.9	1,563.8	5,475.0	4,711.4
Operating expenses	(1,515.9)	(1,269.4)	(4,468.3)	(4,158.5)
Gross profit	386.0	294.4	1,006.7	552.9
Administrative expenses	(85.9)	(74.1)	(233.8)	(215.4)
Share of net income of associates and joint ventures	24.1	48.9	66.9	126.5
Net operating income	324.2	269.2	839.8	464.0
Finance income	3.7	4.7	16.7	18.7
Other gains and losses	(34.2)	(38.0)	(15.3)	(27.5)
Finance costs	(5.5)	(16.8)	(17.6)	(58.2)
Income before taxes	288.2	219.1	823.6	397.0
Taxation	(82.7)	(59.5)	(216.7)	(118.9)
Net income	205.5	159.6	606.9	278.1
Net income attributable to:				
Shareholders of the parent company	209.6	152.1	632.6	268.4
Non-controlling interests	(4.1)	7.5	(25.7)	9.7
	205.5	159.6	606.9	278.1

Earnings per share	$ per share	$ per share	$ per share	$ per share
Basic	0.64	0.46	1.91	0.81
Diluted	0.57	0.42	1.72	0.77

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Condensed Consolidated Statement of Comprehensive Income

	Three Months Ended		Nine Months Ended	
(in $ millions)	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
Net income	205.5	159.6	606.9	278.1
Other comprehensive income				
Items that may be reclassified to the income statement in subsequent periods:				
Foreign currency translation	(185.4)	153.1	(62.4)	(61.0)
Cash flow hedges:				
Net fair value (losses)/ gains arising	(12.0)	18.5	(12.2)	8.9
Reclassification adjustments for amounts recognised in the Consolidated Income Statement	0.2	(3.8)	(10.6)	(4.3)
Adjustments for amounts transferred to the initial carrying amounts of hedged items	–	–	–	2.2
Share of other comprehensive income of associates and joint ventures	2.1	1.4	4.1	8.5
Tax related to components of other comprehensive income which may be reclassified	13.5	1.6	14.4	12.7
Other comprehensive (loss)/income	(181.6)	170.8	(66.7)	(33.0)
Total comprehensive income	23.9	330.4	540.2	245.1
Total comprehensive income attributable to:				
Shareholders of the parent company	27.6	322.8	564.7	235.1
Non-controlling interests	(3.7)	7.6	(24.5)	10.0
	23.9	330.4	540.2	245.1

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Condensed Consolidated Balance Sheet

As at (in $ millions)	30 Sep 2014 Unaudited	31 Dec 2013 Audited
Assets		
Non-current assets		
Goodwill	2,577.9	2,584.6
Intangible assets	18.7	24.6
Property, plant and equipment	4,419.1	4,098.0
Interest in associates and joint ventures	378.1	310.7
Advances and receivables	135.4	136.3
Derivative financial instruments	3.6	18.1
Deferred tax assets	49.1	48.4
	7,581.9	7,220.7
Current assets		
Inventories	47.2	43.5
Trade and other receivables	1,013.6	1,008.0
Derivative financial instruments	27.6	41.8
Assets classified as held for sale	410.6	394.8
Construction contracts – assets	524.5	575.0
Other accrued income and prepaid expenses	348.3	404.0
Restricted cash	20.0	20.0
Cash and cash equivalents	661.6	649.5
	3,053.4	3,136.6
Total assets	10,635.3	10,357.3
Equity		
Issued share capital	703.6	703.6
Treasury shares	(457.2)	(356.9)
Paid in surplus	3,647.7	3,841.6
Equity reserve	200.2	248.5
Translation reserve	(23.1)	31.9
Other reserves	(72.4)	(59.5)
Retained earnings	2,825.6	2,156.5
Equity attributable to shareholders of the parent company	6,824.4	6,565.7
Non-controlling interests	17.1	46.5
Total equity	6,841.5	6,612.2
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	648.3	636.3
Retirement benefit obligations	18.9	19.1
Deferred tax liabilities	141.0	169.7
Provisions	45.9	35.5
Contingent liability recognised	6.6	6.8
Derivative financial instruments	11.0	12.6
Other non-current liabilities	14.5	14.6
	886.2	894.6
Current liabilities		
Trade and other liabilities	1,852.4	1,637.4
Derivative financial instruments	14.7	9.1
Current tax liabilities	207.1	111.2
Current portion of borrowings	195.9	275.4
Liabilities directly associated with assets classified as held for sale	210.7	194.5
Provisions	18.8	19.0
Construction contracts – liabilities	404.7	600.7
Deferred revenue	3.3	3.2
	2,907.6	2,850.5
Total liabilities	3,793.8	3,745.1
Total equity and liabilities	10,635.3	10,357.3

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Condensed Consolidated Statement of Changes in Equity
For the nine months ended 30 September 2014

(in $ millions, Unaudited)	Issued share capital	Treasury shares	Paid in surplus	Equity reserves	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/(loss)	–	–	–	–	–	–	632.6	632.6	(25.7)	606.9
Foreign currency translation	–	–	–	–	(63.6)	–	–	(63.6)	1.2	(62.4)
Cash flow hedges	–	–	–	–	–	(22.8)	–	(22.8)	–	(22.8)
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	4.1	–	4.1	–	4.1
Tax relating to components of other comprehensive income	–	–	–	–	8.6	5.8	–	14.4	–	14.4
Total comprehensive income	–	–	–	–	(55.0)	(12.9)	632.6	564.7	(24.5)	540.2
Transactions with owners										
Shares repurchased	–	(113.3)	–	–	–	–	–	(113.3)	–	(113.3)
Dividends declared	–	–	(200.0)	–	–	–	–	(200.0)	(4.9)	(204.9)
Share-based compensation	–	–	6.1	–	–	–	–	6.1	–	6.1
Shares reissued	–	13.0	–	–	–	–	–	13.0	–	13.0
Equity component of convertible bonds	–	–	–	(48.3)	–	–	48.3	–	–	–
Loss on reissuance of treasury shares	–	–	–	–	–	–	(11.8)	(11.8)	–	(11.8)
Total transactions with owners	–	(100.3)	(193.9)	(48.3)	–	–	36.5	(306.0)	(4.9)	(310.9)
Balance at 30 September 2014	703.6	(457.2)	3,647.7	200.2	(23.1)	(72.4)	2,825.6	6,824.4	17.1	6,841.5

For the nine months ended 30 September 2013

(in $ millions, Unaudited)	Issued share capital	Treasury shares	Paid in surplus	Equity reserves	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	–	–	–	–	–	–	268.4	268.4	9.7	278.1
Foreign currency translation	–	–	–	–	(61.3)	–	–	(61.3)	0.3	(61.0)
Cash flow hedges	–	–	–	–	–	6.8	–	6.8	–	6.8
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	8.5	–	8.5	–	8.5
Tax relating to components of other comprehensive income	–	–	–	–	11.5	1.2	–	12.7	–	12.7
Total comprehensive income	–	–	–	–	(49.8)	16.5	268.4	235.1	10.0	245.1
Transactions with owners										
Dividends declared	–	–	–	–	–	–	(199.3)	(199.3)	(3.9)	(203.2)
Share-based compensation	–	–	5.8	–	–	–	–	5.8	–	5.8
Shares reissued	–	3.2	–	–	–	–	–	3.2	–	3.2
Vesting of share–based payments	–	–	(8.7)	–	–	–	8.7	–	–	–
Loss on reissuance of treasury shares	–	–	–	–	–	–	(1.8)	(1.8)	–	(1.8)
Total transactions with owners	–	3.2	(2.9)	–	–	–	(192.4)	(192.1)	(3.9)	(196.0)
Balance at 30 September 2013	703.6	(440.7)	3,878.9	359.2	(5.8)	(64.8)	1,937.1	6,367.5	49.9	6,417.4

Subsea 7 S.A.

Condensed Consolidated Cash Flow Statement

(in $ millions)	Nine Months Ended 30 Sep 2014 Unaudited	Nine Months Ended 30 Sep 2013 Unaudited
Net cash generated from operating activities	1,069.9	677.2
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	1.3	8.9
Purchases of property, plant and equipment	(634.9)	(539.3)
Purchases of intangible assets	–	(2.4)
Interest received	16.7	18.7
Dividends received from associates and joint ventures	17.3	4.4
On distribution of joint venture	–	0.5
Investment in associates and joint ventures	(0.1)	(1.4)
Net cash used in investing activities	(599.7)	(510.6)
Cash flows from financing activities		
Interest paid	(15.3)	(27.7)
Repayments of borrowings	(79.0)	(158.1)
Loan to joint ventures	–	(115.3)
Shares repurchased	(121.9)	–
Loan repayments from joint ventures	–	11.0
Proceeds from reissuance of treasury shares	1.1	1.4
Dividends paid	(194.6)	(202.2)
Net cash used in financing activities	(409.7)	(490.9)
Net increase/(decrease) in cash and cash equivalents	60.5	(324.3)
Cash and cash equivalents at beginning of period	649.5	1,287.9
Effect of foreign exchange rate movements on cash and cash equivalents	(5.0)	(6.8)
Increase in restricted cash balances	–	(20.0)
(Increase)/decrease in cash balances classified as assets held for sale	(43.4)	16.0
Cash and cash equivalents at end of period	661.6	952.8

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 12 November 2014.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period 1 January 2014 to 30 September 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 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 audited 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 September 2014

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	623.8	246.4	249.2	783.5	(1.0)	1,901.9
Net operating income from operations	82.9	35.1	87.6	108.8	9.8	324.2
Finance income						3.7
Other gains and losses						(34.2)
Finance costs						(5.5)
Income before taxes						288.2

For the three months ended 30 September 2013

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	582.6	73.2	232.5	669.8	5.7	1,563.8
Net operating income from operations	93.5	30.2	10.4	111.1	24.0	269.2
Finance income						4.7
Other gains and losses						(38.0)
Finance costs						(16.8)
Income before taxes						219.1

For the nine months ended 30 September 2014

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	1,953.8	694.0	745.0	2,073.9	8.3	5,475.0
Net operating income from operations	244.6	68.6	163.0	337.7	25.9	839.8
Finance income						16.7
Other gains and losses						(15.3)
Finance costs						(17.6)
Income before taxes						823.6

For the nine months ended 30 September 2013

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

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		Nine Months Ended	
For the period (in $ millions, except share and per share data)	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
Net income attributable to shareholders of the parent company	209.6	152.1	632.6	268.4
Interest on convertible bonds (net of amounts capitalised)	3.9	15.5	10.7	19.5
Earnings used in the calculation of diluted earnings per share	213.5	167.6	643.3	287.9

	Three Months Ended		Nine Months Ended	
For the period (number of shares)	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
Weighted average number of common shares used in the calculation of basic earnings per share	329,884,268	332,187,245	331,590,222	331,974,333
Convertible bonds and convertible notes	42,373,480	65,053,265	41,640,002	40,533,196
Share options, performance shares and restricted shares	632,937	803,263	1,075,355	1,148,046
Weighted average number of common shares used in the calculation of diluted earnings per share	372,890,685	398,043,773	374,305,579	373,655,575

	Three Months Ended		Nine Months Ended	
For the period (in $ per share)	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
Basic earnings per share	0.64	0.46	1.91	0.81
Diluted earnings per share	0.57	0.42	1.72	0.77

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		Nine Months Ended	
For the period (number of shares)	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
Convertible bonds and convertible notes	–	–	–	23,418,325
Share options, performance shares and restricted shares	2,149,538	2,013,004	2,099,274	1,885,913

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. We define Adjusted EBITDA as net income adjusted to exclude depreciation, amortisation and mobilisation costs, impairment charges or impairment reversals, finance income, other gains and losses (including gain on disposal of subsidiary and gain on distribution), finance costs and taxation. Adjusted EBITDA is a non-IFRS measure that represents net income before additional specific items that are considered to impact the comparison of our performance with prior periods or with other businesses. We define our Adjusted EBITDA margin percentage as Adjusted EBITDA divided by revenue.

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

Adjusted EBITDA and Adjusted EBITDA margin have not been prepared in accordance with IFRS as 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:

	Three Months Ended		Nine Months Ended	
For the period (in $ millions)	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
Net operating income	324.2	269.2	839.8	464.0
Depreciation, amortisation and mobilisation	99.0	87.5	294.4	262.5
Impairment	3.0	2.5	8.2	12.3
Adjusted EBITDA	426.2	359.2	1,142.4	738.8
Revenue	1,901.9	1,563.8	5,475.0	4,711.4
Adjusted EBITDA %	22.4%	23.0%	20.9%	15.7%

Reconciliation to net income:

	Three Months Ended		Nine Months Ended	
For the period (in $ millions)	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
Net income	205.5	159.6	606.9	278.1
Depreciation, amortisation and mobilisation	99.0	87.5	294.4	262.5
Impairment	3.0	2.5	8.2	12.3
Finance income	(3.7)	(4.7)	(16.7)	(18.7)
Other gains and losses	34.2	38.0	15.3	27.5
Finance costs	5.5	16.8	17.6	58.2
Taxation	82.7	59.5	216.7	118.9
Adjusted EBITDA	426.2	359.2	1,142.4	738.8
Revenue	1,901.9	1,563.8	5,475.0	4,711.4
Adjusted EBITDA %	22.4%	23.0%	20.9%	15.7%

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:

	Nine Months Ended	
(in $ millions)	30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
At period beginning	2,584.6	2,574.8
Exchange differences	(6.7)	(15.5)
At period end	2,577.9	2,559.3

11. Property, plant and equipment

Significant additions to property, plant and equipment for the nine months ended 30 September 2014 included $375 million expenditure related to the new-build vessel programme. This included the following significant additions:

- $96 million expenditure on the construction flex-flay vessel, the *Seven Artic*
- $83 million expenditure on the PLSV, the *Seven Rio*
- $50 million expenditure on the PLSV, the *Seven Waves*
- $62 million expenditure on the PLSV, the *Seven Sun*
- $74 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 September 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 $3.0 million was recognised in the quarter ended 30 September 2014 (Q3 2013: $2.4 million). The impairment was recognised in the Condensed Consolidated Income Statement in operating expenses. The cumulative impairment charge at 30 September 2014 was $27.2 million (31 December 2013: $19.0 million).

13. Treasury shares

At 30 September 2014, the Group owned 20,530,747 common shares as treasury shares, representing 5.84% 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 265,765 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.

During the quarter 416,202 treasury shares were used to satisfy share-based awards which vested and 4,750 share options were exercised. No new common shares were issued.

14. Share repurchase plan

During the third quarter 2014, the Group completed its $200 million share repurchase programme initiated in October 2013 through the repurchase of 1,277,680 shares for a total consideration of $22.8 million. Cumulatively 10,710,315 shares were repurchased for a total consideration of $198.8 million.

On 31 July 2014, the Group announced a further share repurchase programme of up to $200 million. During the third quarter 2014 the Group repurchased 400,000 shares for a total consideration of $5.7m.

15. Commitments and contingent liabilities

Commitments

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

- contracts totalling approximately $513 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 $179 million relating to the new-build heavy construction vessel, the *Seven Arctic*. The vessel is scheduled to be delivered in 2016
- contracts totalling approximately $53 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 September 2014 amounted to BRL 677 million ($299.2 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 September 2014 was $6.6 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)	Nine Months Ended 30 Sep 2014 Unaudited	30 Sep 2013 Unaudited
Cash flow from operating activities:		
Income before taxes	823.6	397.0
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	273.8	249.4
Net impairment	8.2	12.3
Amortisation of intangible assets	8.3	6.8
Amortisation of mobilisation costs	12.3	6.3
Adjustments for investing and financing items:		
Share in net income of associates and joint ventures	(66.9)	(126.5)
Finance income	(16.7)	(18.7)
Finance costs	17.6	58.2
Gain on disposal of property, plant and equipment	(0.5)	(12.7)
Adjustments for equity items:		
Share-based payments	6.1	5.8
	1,065.8	577.9
Changes in operating assets and liabilities:		
Increase in inventories	(4.1)	(8.4)
Decrease/(increase) in operating receivables	26.2	(12.4)
Increase in operating liabilities	147.7	236.1
	169.8	215.3
Income taxes paid	(165.7)	(116.0)
Net cash generated from operating activities	1,069.9	677.2

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 Sep 2014 Carrying amount Unaudited	30 Sep 2014 Fair value Unaudited	31 Dec 2013 Carrying amount Audited	31 Dec 2013 Fair value Audited
Financial liabilities				
Borrowings – convertible bonds – Level 2	(844.2)	(863.3)	(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 3.1%. (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 Sep 2014 Level 2 Unaudited	30 Sep 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	30.1	-	33.5	–
Derivative instruments in designated hedge accounting relationships	1.1	-	26.4	–
Financial liabilities:				
Financial liabilities at fair value through profit or loss - derivative instruments	(23.6)	-	(17.2)	–
Derivative instruments in designated hedge accounting relationships	(2.1)	-	(4.5)	–
Non-recurring fair value measurements				
Assets classified as held for sale	-	199.9	–	200.3

During the period ended 30 September 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 0.24%.

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 'Non-Current Assets Held for Sale and Discontinued Operations'. 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 September 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 nine months ended 30 September 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. Facilities

Multi-currency revolving credit facilities

The Group entered into a new $500 million multi-currency revolving credit and guarantee facility (the $500 million facility) on 3 September 2014. The facility is syndicated with a number of banks and is available for the issuance of guarantees or a combination of guarantees and cash drawings, subject to a $200 million sub-limit for guarantee issuance. The facility is guaranteed by Subsea 7 S.A. and Subsea 7 Finance (UK) Limited. Final maturity of this facility is 3 September 2019.

20. Post balance sheet events

Convertible Bonds

On 29 September 2014, holders of an aggregate $13.8 million (par value) of the 2014 3.5% convertible bonds filed their conversion notice for their bonds to be converted into common shares of Subsea 7 S.A. A total of 900,783 common shares were delivered to bondholders from existing shares in treasury on 13 October 2014. On the same date the remaining $182 million (par value) of bonds were redeemed on maturity at their principal amount.

Between 1 October 2014 and 10 November 2014, the Group repurchased bonds totalling $46 million in nominal value of the 2017 1.00% convertible bonds.

Multi-currency revolving credit facilities

Effective from 3 October 2014, the Group terminated the $600 million multi-currency revolving credit guarantee facility which was entered into on 10 August 2010. In addition three separate $100 million multi-currency revolving credit facility agreements were also terminated.

Share repurchase plan

Between 1 October 2014 and 10 November 2014, the Group repurchased a further 1,218,771 common shares for a total consideration of $15.1 million in relation to the share repurchase programme announced in July 2014.

20. Post balance sheet events continued

Extraordinary General Meeting

On the 17 October 2014 the Group announced that an Extraordinary General Meeting of Shareholders will be held on the 27 November 2014. The purpose of the meeting is to consider and approve the cancellation of 19,626,664 shares currently held in treasury, the extension of the Board's authority to repurchase and subsequently cancel the Company's shares, and certain changes in respect of the Company's authorised share capital. Ratification at the forthcoming Extraordinary General Meeting will result in equity movements within the Consolidated Statement of Changes in Equity and there will be no impact on either the Consolidated Income Statement or earnings per share calculations.