Subsea 7 S.A.
Annual Report 2012

subsea 7®

WELL POSITIONED FOR THE FUTURE

WHO WE ARE

Subsea 7 is a seabed-to-surface engineering, construction and services contractor to the offshore energy industry worldwide.

Our vision is to be acknowledged by our clients, our people and our shareholders as the leading strategic partner in our market.

We provide integrated services and have a proven track record of safely and reliably executing offshore projects of all sizes and complexity in all water depths.

Our operating principles define the way we conduct our operations and shape our approach to business:

Safety is at the heart of our operations
– we are committed to an incident-free workplace, every day, everywhere.

Projects are core to our business
– our people are motivated to ensure that our projects deliver exceptional performance.

Engineering is at the heart of our projects
– we create technical solutions and sustainable value for our stakeholders.

People are central to our success
– we build our business around a valued and motivated workforce.

We make long-term investments in our people, assets and know-how
– we build strong relationships with clients and suppliers, based on mutual trust and respect.

We operate in a consistent manner on a worldwide basis
– we are locally sensitive and globally aware.

2012 Financial Highlights

Revenue

$6,297m

(2011: $5,477m)

Revenue by Territory[1]

AFGOM	$2,182m
APME	$278m
Brazil	$987m
NSC	$2,838m
CORP	$12m

Revenue by service capability

SURF	$4,217m
Conventional / Hook-up	$1,076m
Life-of-Field	$764m
i-Tech	$217m
VERIPOS	$23m

Adjusted EBITDA[2]

$1,139m

(2011: $1,003m)

Cash

$1,288m

(2011: $803m)

Net income

$847m

(2011: $451m)

Earnings per share (diluted)

$2.23

(2011: $1.21)

Backlog

$9,086m

(2011: $8,538m)

Backlog by Territory

AFGOM	$2,826m
APME	$718m
Brazil	$1,824m
NSC	$3,718m

Backlog by year of execution

2013	$4,624m
2014	$2,520m
2015	$938m
Thereafter	$1,004m

The Consolidated Financial Statements include the Group's results for the year ended 31 December 2012.

The comparative period is the 13-month period ended 31 December 2011.

1. See pages 30-37 for individual 2012 Territory Commentaries and page 39 for 2012 Territory Financial Highlights.
2. For explanations and reconciliations of Adjusted EBITDA refer to page 103.

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Certain statements made herein may include forward-looking statements. See 'Special Note Regarding Forward-Looking Statements' on page 104 for further details.

CHAIRMAN'S STATEMENT

"We enter 2013 with a record backlog of work… the growth outlook in our industry remains attractive"

Kristian Siem, Chairman

Our Values

Safety
We are committed to an incident-free workplace, every day, everywhere. We continue to minimise the impact of our activities on the environment.

Integrity
We apply the highest ethical standards to everything we do. We believe that by treating our clients, people and suppliers fairly and with respect, we will earn their trust and build sustainable success together.

Innovation
We constantly strive to improve the efficiency of our business by investing in the development of our people and through innovation in technology, operations and processes.

Performance
We are predictable and reliable in our performance. We always strive for excellence in everything we do in order to achieve superior business results.

Collaboration
We are locally sensitive and globally aware. Our people work together, leveraging our global know-how and capabilities to build sustainable local businesses.

To the Shareholders of Subsea 7 S.A.
2012 was another year of significant progress for Subsea 7. Against an improving but still challenging market backdrop, the Group achieved record revenue of $6.3 billion and Adjusted EBITDA of $1.1 billion, while backlog increased to $9.1 billion.

The Group remains focused on delivering predictable performance to our clients, and is recognised as a leader in its field with over 14,000 people and state-of-the art equipment deployed around the world.

Integration successfully completed
The achievements of 2012 are underpinned by the Combination between Acergy S.A. and Subsea 7 Inc. which was completed in January 2011.

In an environment where efficiency and risk management are paramount, and where the trend is towards larger projects which require substantial resources, clients increasingly rely on Subsea 7's engineering and project management expertise, and on our fleet's size, diversity and technical capability.

Subsea 7 has strong Values: Safety, Integrity, Innovation, Performance and Collaboration.

These Values are embedded at all levels of the organisation and are crucial to its success.

An improving business environment
Recession in the Eurozone, low growth in the US and fears of a hard landing in China contributed to economic uncertainty and Brent oil prices fell to near $90 per barrel in May 2012.

The expansionary monetary policies of Central Banks helped to bring back some confidence in the finance markets and Brent oil averaged $112 per barrel in 2012, up slightly on 2011.

The strong oil price and the need to improve declining production profiles drive demand in the oil services industry.

However, delays in awarding projects caused by supply chain constraints and governmental and regulatory factors in some parts of the world meant that Subsea 7's backlog was built relatively late during 2012, with Q4 experiencing particularly strong order inflow.

Subsea 7 enters 2013 with a record backlog of work, and tendering activity remains strong. The growth outlook in the industry remains attractive.

As expected in a growing industry, new competitors emerge and existing companies increase their capabilities.

In this increasingly competitive environment, Subsea 7's experience and resources are key differentiators. Constantly challenging our cost base is key to preserving competitive advantage.

Well positioned for the future
Subsea 7 brings together engineering and project management expertise and the most versatile and capable fleet in our industry, positioning us well to fulfil clients' needs.

Our size and scale enables us to serve clients on a global basis and our robust balance sheet gives us freedom to pursue future growth opportunities.

Subsea 7 will continue to ensure that disciplined risk and financial management is applied to investments and projects, and that a competitive cost base is maintained.

The Group's strategic focus remains centred on our core market segments of SURF, Life-of-Field, Conventional and Hook-up services, in all of which we see good growth prospects.

2012 saw us exit non-core businesses with the disposal of our stake in NKT Flexibles and the distribution of VERIPOS as a dividend in kind to shareholders. 2012 also saw a $200 million share buyback and a $199 million dividend.

Our first priority is to re-invest in the business for profitable growth but we will distribute surplus cash to our shareholders when expected returns from new opportunities do not meet our investment criteria. We remain focused on developing sustainable competitive advantage and delivering long-term value for shareholders.

To our people, Subsea 7 offers personal development and exciting growth opportunities in a global and attractive industry. We aim to assist each employee to reach their potential and build their career within our organisation.

My thanks
I would like to thank our shareholders and our clients for their continued support.

On behalf of the Board of Directors, I thank Arild Schultz and Trond Westlie, who have decided not to stand for re-election at the upcoming Annual General Meeting in June, for their contribution to the Company over many years. Their valued counsel shall be missed.

To our people I extend my thanks, and acknowledge their considerable efforts. The significant progress Subsea 7 has achieved and the strong results delivered would not have been possible without the continued commitment and expertise of our people.

I thank them for their contribution and dedication to our safe and efficient operations.

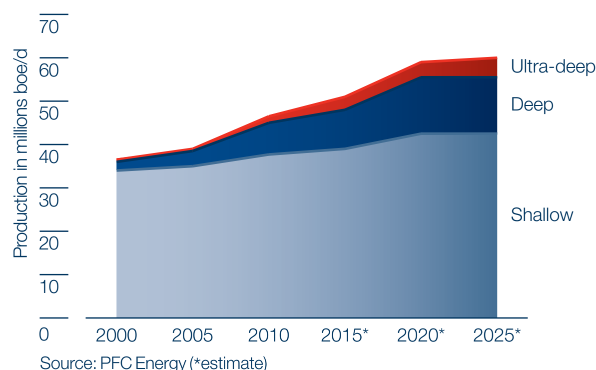
Kristian Siem
Chairman

Market overview

Industry fundamentals remain strong
The International Energy Agency forecasts in its 'central scenario' that global primary energy demand will increase by one-third between 2010 and 2035, with 90% of the growth in non-OECD economies. Consequently, oil demand is expected to continue to grow steadily, reaching about 100 million boe/d in 2035, an increase of around 10 million boe/d over 2012. This demand will be met from both onshore and offshore production.

While demand continues to grow, existing production is steadily declining at around 6% per annum. New developments to fill this widening gap will come from unconventional sources such as shale, oil sands, and, increasingly, from offshore production, in particular deep and ultra-deepwater (see chart below).

Global oil and gas offshore production



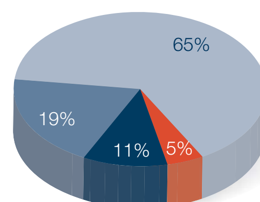
Source: PFC Energy (*estimate)

Looking forward, most analysts agree that the areas of greatest opportunity to replenish oil and gas reserves, such as deepwater offshore, present greater technical challenges and are likely to lead to higher exploration and production ('E&P') capital expenditure.

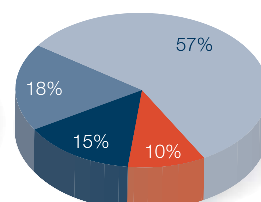
According to Barclays Capital, global E&P spending will approach $650 billion in 2013, an increase of 7% versus 2012 and, as the charts below show, PFC Energy estimates that there will be growth in CapEx spend from $4.7 trillion in the period 2003-2012 to $8.9 trillion in the 10-year period 2013-2022. Deep and ultra-deepwater will exhibit the largest growth.

These factors support the fundamentals for the offshore subsea market remaining strong in the medium and long term.

Global CapEx 2003-2012
$4.7 trillion

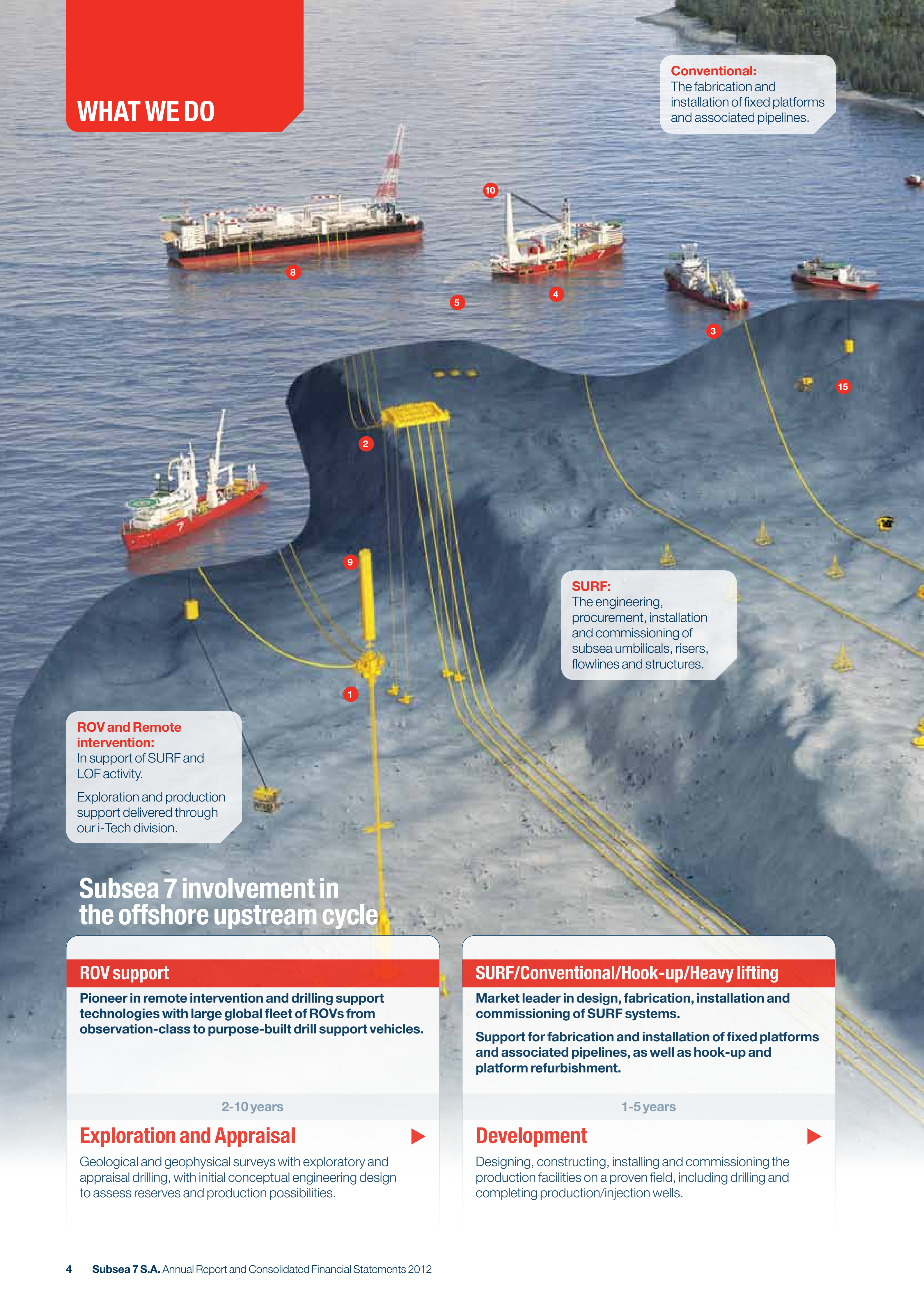


Global CapEx 2013-2022
$8.9 trillion*



Ultra-deep
Deep
Shallow
Onshore

Source: PFC Energy (*estimate)



WHAT WE DO

Conventional:
The fabrication and installation of fixed platforms and associated pipelines.

SURF:
The engineering, procurement, installation and commissioning of subsea umbilicals, risers, flowlines and structures.

ROV and Remote intervention:
In support of SURF and LOF activity.

Exploration and production support delivered through our i-Tech division.

Subsea 7 involvement in the offshore upstream cycle

ROV support

Pioneer in remote intervention and drilling support technologies with large global fleet of ROVs from observation-class to purpose-built drill support vehicles.

2-10 years

Exploration and Appraisal

Geological and geophysical surveys with exploratory and appraisal drilling, with initial conceptual engineering design to assess reserves and production possibilities.

SURF/Conventional/Hook-up/Heavy lifting

Market leader in design, fabrication, installation and commissioning of SURF systems.

Support for fabrication and installation of fixed platforms and associated pipelines, as well as hook-up and platform refurbishment.

1-5 years

Development

Designing, constructing, installing and commissioning the production facilities on a proven field, including drilling and completing production/injection wells.

Our activities

1. Hybrid riser tower
2. Buoy-supported riser
3. Reel-lay installation
4. J-lay installation
5. S-lay installation
6. Bundle-lay installation
7. Platform and topside installation and removal
8. Hook-up services
9. Flexible pipeline and riser installation
10. Heavy lifting
11. Diving services
12. Engineering and Project Management
13. Offshore wind turbine installation
14. Pipeline, PLET, spool and jumper fabrication
15. ROV – Inspection, survey and construction

See Glossary on pages 106-109 for further details of terms.

Life-of-Field ('LOF')

Full suite of integrated LOF services including inspection, maintenance and repair, integrity management and remote intervention.

10-30 years

Production

Operating and maintaining the infrastructure for the recovery of hydrocarbon reserves to the surface and their transport for refining and distribution.

Heavy lifting

Planning and executing the deconstruction, removal, disposal and recycling of subsea pipelines and infrastructure.

Heavy lifting removal of topsides structures.

1-2 years

Decommissioning

Abandoning wells, deconstructing, removing and disposing of a production installation and its associated components, site restoration and ongoing inspection.

WHERE WE OPERATE

Operating Territories

We deliver our services to the global offshore energy industry through an operational structure of four geographical Territories.

Each Territory has a dedicated management team, and has built a strong local presence with project and operational offices, fabrication bases and logistics facilities to meet market requirements.

See pages 30-37 for overviews of 2012 Territory performance.

Global Operations

Vessels

40+

ROVs

175+

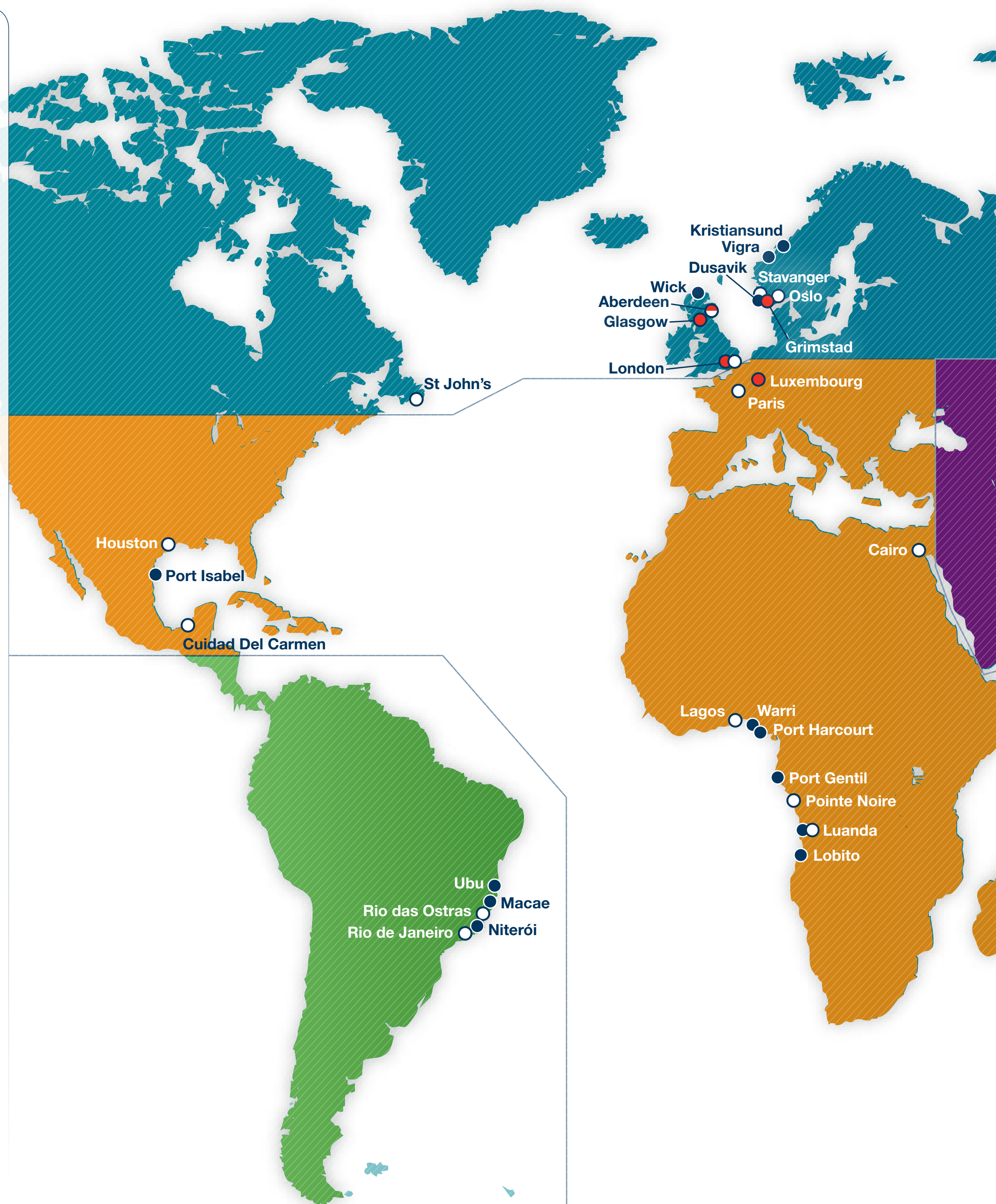
People*

14,000+

Engineers

2,000+

● Corporate/support office
○ Territory office
● Spoolbase/fabrication/ operational support yard



Brazil

People:	850**
Core market segments:	SURF

Africa, Gulf of Mexico & Mediterranean (AFGOM)

People employed:	2,850**
Core market segments:	SURF, LOF, Conventional and Hook-up

*Includes offshore, onshore Territories, i-Tech division, Offshore Resources and Corporate. **Onshore Territories only.

Divisions and Joint Ventures

i-Tech
Our i-Tech division operates one of the world's largest and most advanced fleets of Remotely Operated Vehicles ('ROVs'), and is a market leader in this sector in Brazil, Mexico and a growing number of regions with emerging deepwater operations.

i-Tech's fleet of around 100 ROVs ranges from small observation-class vehicles to heavy-duty remote intervention systems, and is supported by a workforce of over 950 through a global network of operational bases.

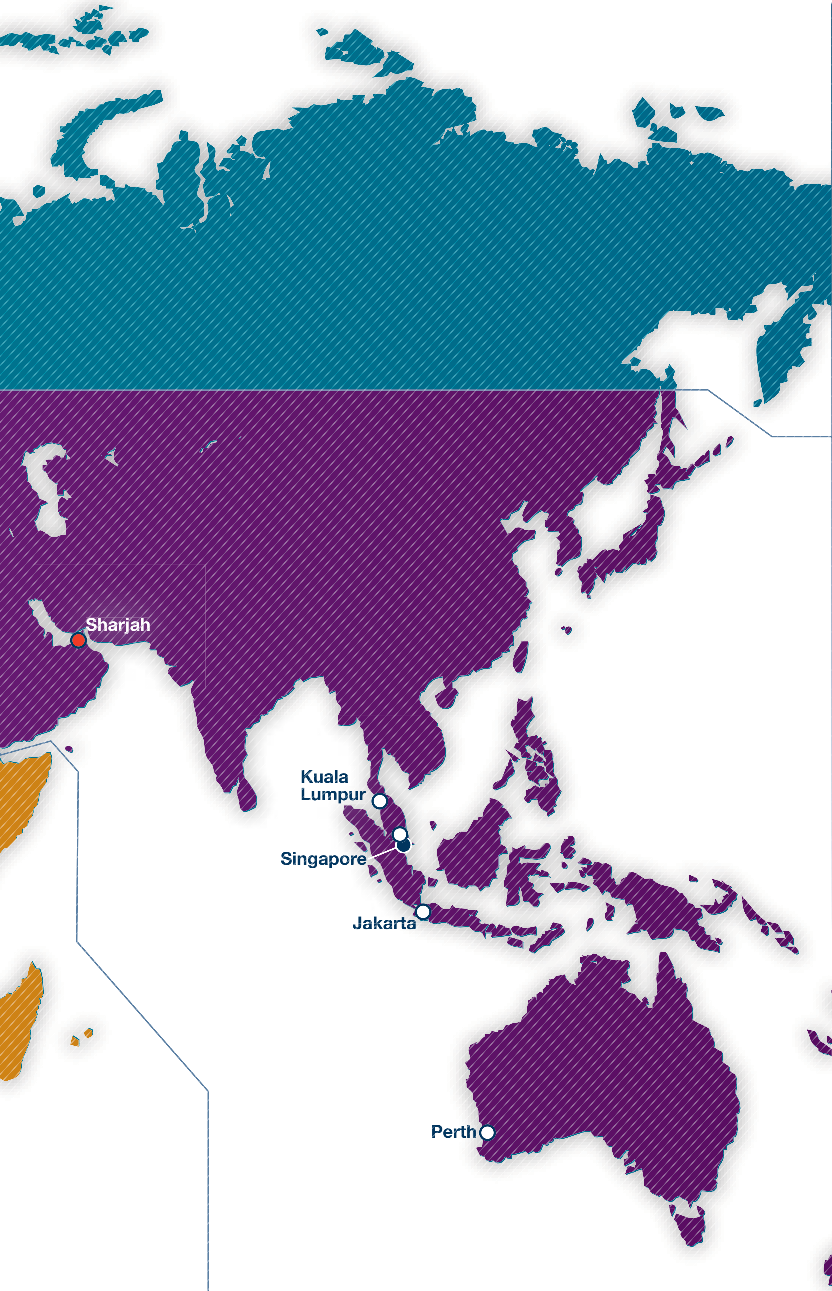
Seaway Heavy Lifting
We jointly own Seaway Heavy lifting ('SHL'), an established offshore contractor operating two world-class heavy lift vessels.

SHL is active in three specialist segments of the offshore energy market: the installation of offshore wind turbines, structures and substations, the transport and installation of large offshore oil and gas structures and the decommissioning of redundant offshore structures.

Our Renewable Energy Division was consolidated into SHL in early 2013, creating a business with enhanced capability in the growing offshore renewables sector.

SapuraAcergy
SapuraAcergy, a Malaysian joint venture, has widespread experience of diverse projects in Australia, India, Japan, Malaysia and Vietnam.

SapuraAcergy deploys *Sapura 3000*, an advanced pipelay, construction and heavy lift vessel.



Asia Pacific & Middle East (APME)

People:	270**
Core market segments:	SURF and LOF

North Sea & Canada (NSC)

People:	2,300**
Core market segments:	SURF and LOF

CHIEF EXECUTIVE OFFICER'S REVIEW

"A year of good performance; we are well positioned in a growing market where we see the entry of new competitors"

Jean Cahuzac, Chief Executive Officer

Reflecting on our performance

In a year of increased activity, safety has remained a key priority for Subsea 7. We have made good progress toward achieving our vision of incident-free operations with a 40 % reduction in our recordable incident frequency rate.

Revenue was $6.3 billion, primarily reflecting good activity levels in the North and Norwegian seas, West Africa and Brazil. Adjusted EBITDA was $1.1 billion and in line with our expectations. Margins benefited from improved pricing in the North and Norwegian seas, and from an excellent performance in West Africa, partly mitigated by losses in Brazil. Our dry-dock, upgrade and new vessel construction projects were delivered on time and mainly within budget.

Our balance sheet was strengthened further by the issuance of a $700 million convertible bond, and we ended the year with nearly $1.3 billion of cash.

We remain disciplined in our bidding approach for new projects with a strong focus on project risk management and profitability. At the year end, backlog stood at $9.1 billion, a record level, reflecting both the success of our commercial initiatives and our clients' confidence in our ability to deliver reliable and efficient services.

The integration process, following the merger in early 2011, has been completed as planned; we have met our objectives. However, this is not the end of our journey as we maintain our focus on improving our cost structure and profitability by optimising our processes and organisation.

Good long-term growth prospects

In 2012, notwithstanding the ongoing economic and political turmoil in many parts of the world, our clients recognised the need to move forward with a number of major oil and gas developments. We saw activity improve as the year progressed.

We expect this trend to continue in 2013 and beyond in all the business segments where we operate, albeit at different rates around the world. We are optimistic about the market as more field discoveries are announced, and our clients remain committed to strategic projects around the world.

We remain disciplined in our tendering approach and keep focused on managing risk as new competitors enter our market and the industry's supply chain constraints increase.

Our differentiators

People and know-how

One of the industry's greatest challenges is the limited availability of skilled people to deliver expected growth. We believe Subsea 7 is well positioned to face this challenge. In particular, the Group has the ability to support and manage large projects from several centres of expertise around the world, including recently-opened offices in Oslo, Norway.

Providing sustainable careers for our people is at the core of our people retention and attraction strategy. During 2012 we implemented talent development programmes across the organisation and 'Academy 7' delivered over 24,000 days of training and 20,000 e-learning modules.

We continue to attract talented people to our business in all locations. Through our Engineering and Commercial Graduates and Engineering Conversion training programmes, we integrated over 300 people into our workforce. Our Values are embodied in 'Being 7' and, along with our people development and mobility programmes, enable us to differentiate ourselves in an increasingly competitive market.

Industry-leading assets

We operate a high-specification fleet of over 40 vessels, the largest in the industry. 2012 was a particularly busy year as we successfully implemented our continuous fleet enhancement programme to meet our growth objectives.

We took delivery of two new-build vessels during the year; *Seven Inagha*, a jack-up vessel for our Conventional activities in Nigeria, and *Seven Borealis*, a multi-purpose heavy construction and pipe-laying vessel. At approximately $550 million, *Seven Borealis* represents the largest capital investment project ever undertaken by Subsea 7. The vessel was delivered in line with the cost estimate and on schedule to the CLOV Project, offshore Angola.

Seven Waves, a flexible pipelay support vessel for Brazil, is under construction for delivery in 2014.

In line with our fleet enhancement strategy, a new dive support vessel has been commissioned for the North Sea for delivery in 2015, and we acquired full ownership of the diving support vessel, *Seven Falcon*.

We hired on long-term charter *Skandi Skansen*, a construction and field support vessel, and *Normand Oceanic*, a heavy construction vessel in which we also acquired a 50% stake.

At the end of the year we released *Far Saga* and we are in the process of divesting some smaller, older assets including *Acergy Orion*, *Acergy Legend*, and *Acergy Harrier*.

In early 2013 we took delivery of the new-build *Seven Viking*, an IMR and light construction support vessel for our North Sea fleet.

World-leading technology
We continue to focus on the development, application and commercialisation of new technologies that are key to addressing the complex projects of the offshore oil and gas market.

For clients, the application of our pipeline, riser, welding and remote intervention technology has been a key enabler, helping them to overcome the challenges of deepwater and harsh environments.

For many projects, riser systems are a key feature, and we are able to offer a unique suite of riser options including Hybrid Riser Towers, the Buoy-Supported Riser System and Steel Catenary Risers. We are making good progress on a number of other prospects utilising key technologies, including the world's most complex trace heated infield pipelines.

Local presence
Local presence is essential in many parts of the world to win work and successfully execute major projects. As well as satisfying our clients' requirements for local content, a local presence creates significant opportunities to develop expertise where it is most needed.

We are focused on recruiting and developing talent that reflects our geographical development and local ambitions. We believe that a significant differentiator will be the establishment of an integrated presence in countries where we foresee opportunities for long-term growth for the Group, such as Angola, Brazil, Ghana, Malaysia, Mozambique and Nigeria.

Conclusion
Our strategy remains focused on key market segments with strong and sustainable growth characteristics, in which we can differentiate ourselves. Our clients' global spending is expected to grow in 2013 and beyond, in spite of the remaining short-term uncertainties affecting the global economy.

Subsea projects will continue to increase in size and complexity and will be more frequently executed in deepwater and harsher environments. This will contribute to strong industry growth for companies with the size and capabilities to fulfil clients' requirements and execute projects in a safe, reliable and cost-effective manner. We have the people, technology, assets and operational track record to support these requirements.

We are proud of what we have achieved and we will continue to leverage our enhanced global capabilities to capture further opportunities.

In conclusion, I would like to thank our clients for their continued confidence and support, as well as our people around the world. Our people have again demonstrated dedication and commitment in a challenging environment. Our integration plan has been well executed and we are well positioned for the years ahead.

Jean Cahuzac
Chief Executive Officer

Operating responsibly

Safety
Against an 8% increase in man-hours worked during 2012, we achieved the following reductions: 20% in high-potential incidents, 23% in lost-time incidents and 40% reduction in our recordable incident frequency rate.

23%
reduction in lost-time incidents

40%
reduction in recordable incident frequency rate

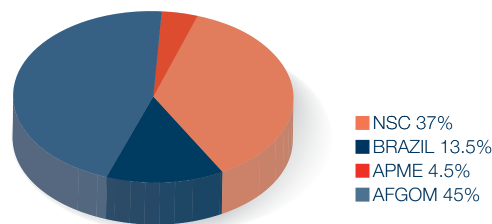
Environment
Our Clean Operations Emissions Saving Programme delivered over 8,500 tonnes of fuel saving and reduced CO_2 emissions by 27,200 tonnes across the fleet in 2012.

People are key

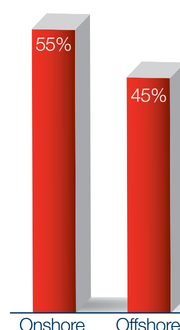
Providing long-term career opportunities for talented people is a key focus area for us. We had over 200 graduates join the Group in 2012; and we invested over $20 million in Learning and Development activities.

We employ over 14,000 people of over 100 nationalities in more than 20 countries, with a well-distributed experience profile.

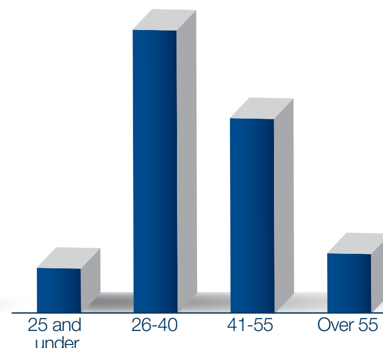
Onshore employees by Territory



Employee location



Experience profile



OUR MARKET

Core and complementary market segments

We have identified four core segments of our market in which we aim to achieve sustainable returns with manageable levels of risk, and two complementary market segments where we can also utilise our expertise and assets.

SURF

The scale and complexity of SURF projects continue to grow as new reserves are found in deeper water and in more challenging environments. In response, clients are packaging their scopes of work into larger EPIC frameworks.

Our objective is to be the global market leader in this sector. We have a strong international SURF presence; in every major offshore region, we safely and successfully execute challenging projects which connect seabed wellhead infrastructures to surface production facilities such as platforms and floating production systems.

Life-of-Field ('LOF')

LOF includes the management of installed subsea infrastructures, such as inspection, maintenance, repair and services provided over the life of a field's production phase.

We currently perform LOF services in offshore regions which have a mature subsea infrastructure. Drawing on our track record in other segments, we have a number of competitive strengths that underpin our expansion in LOF. Our knowledge of much of the existing subsea infrastructure derives from our involvement in its installation.

Conventional

Our expertise is also deployed in shallow water environments, supporting our clients in the fabrication and installation of fixed platforms and associated pipelines.

West Africa has been our main market for Conventional services, and this is projected to continue in the medium term.

Mexico is an emerging market for us in this segment.

Hook-up

This segment of the market comprises the installation of modules on new platforms and the refurbishment of topsides of existing fixed and floating platforms. We are well positioned to grow in this segment due to our capability and experience in the Conventional and SURF sectors.

West Africa has been our main market for Hook-up services, and this is projected to continue in the medium term.

ROV and Intervention support

Through our i-Tech division, one of the leading providers of subsea intervention technology, we offer a full range of ROV and associated tooling services to the global offshore exploration and production industry.

Renewables, Heavy lifting and Decommissioning

Through our joint venture Seaway Heavy Lifting, we have an active presence in the offshore renewables market in Europe and the worldwide market for the installation and decommissioning of offshore platforms.

OUR STRATEGY

Taking a long-term view

The scale and complexity of projects within the offshore subsea market are expanding rapidly to meet the challenge of increasing global energy demands.

This development has great significance for Subsea 7. We have a long track record, people with high levels of industry expertise, market-driven technologies, high-performance assets and the financial strength required to execute these projects safely and effectively.

We can differentiate ourselves by delivering high-quality services that are built on our core strengths of engineering and project management, and supported by our commitment to invest in people, technology and assets.

We continually target prospects that match our capabilities, have the right risk profile and generate acceptable returns.

We already have, and are committed to expanding, a strong local presence in the major offshore regions. We have well-established relationships with national oil companies, major and independent oil companies, suppliers and other service providers, all of which are based on maintaining a strong local infrastructure. Through investment, we develop and embed local capability and deliver an effective local supply chain.

Our aim is to deliver performance which is sustainable, transferable, consistently reliable and profitable.

Strategic differentiators:

We have identified four key strategic elements that enable us to focus most clearly on prime opportunities and achieve optimum differentiation for our clients and shareholders.

People

- We value, develop and rely on the skills and expertise of our people.
- Our people underpin our capability to execute challenging projects safely, effectively and efficiently.
- We have significant specialist expertise in key disciplines including engineering, project management, vessel management and supply chain management.

Technology

- We continually develop, apply and commercialise new technologies.
- Our technology addresses key industry challenges, such as deep water, high pressure, high temperature and harsh environments.
- We support our clients' key drivers including safety, productivity, schedule and cost.

Assets

- Our fleet is one of the largest and most versatile in the market, with over 40 vessels, including global enabling vessels, and more than 175 ROVs.
- Our onshore assets include a worldwide infrastructure of offices, spoolbases, fabrication facilities and operational support yards.
- We are committed to maintaining the market-leading capability of our assets through sustained investment.

Local presence

- We invest in building a strong local business and infrastructure to enable us to respond to local requirements.
- We develop local talent on our vessels and in our offices, bases and fabrication yards worldwide.
- We have long-term collaborative partnerships with local stakeholders and service providers.

OUR STRATEGIC DIFFERENTIATORS

Key elements for growth

We have identified four key strategic elements on which our continued growth will be based: our people and their know-how, our technology, our world-leading assets and our strong local presence.

These are recognised areas of strength for us, which enable us to focus most clearly on prime opportunities and achieve optimum differentiation for our clients and shareholders.

People

We value our people – they are our future.
Our ability to execute challenging projects safely, effectively and efficiently is based on the expertise of our people.

They are the foundation of our business, and are key to the ongoing creation of technical solutions that deliver sustainable value.

We have built up a skilled multicultural workforce of over 14,000 people onshore and offshore, with significant specialist expertise in key disciplines such as engineering and project management.

Our workforce is truly global, bringing its specialist expertise to all our international markets, and adheres worldwide to our Values of Safety, Integrity, Innovation, Performance and Collaboration.

The rapid growth in the subsea market has led to a shortage of resources.

To address this need, and to optimise professional opportunities for our people, we invest significantly in learning and development, allowing our people to plan and manage sustainable careers with us.

We continue to attract new talent into the industry through recruitment of graduates and mid-career conversion programmes for engineers from non-oil and gas sectors.

We are committed to building on our global employer brand – Being 7 – which embodies our Values and underpins our recruitment and personal development objectives.

Technology

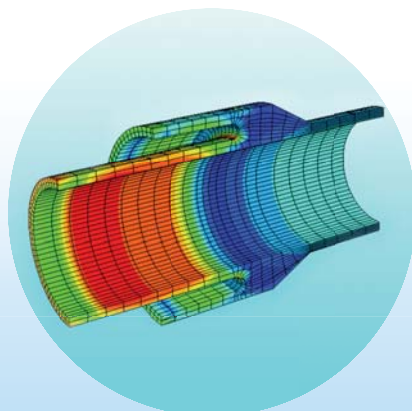
World-class technologies push the boundaries.
We continually develop, apply and commercialise new technologies that add value and meet the challenges of operating at the limits of seabed-to-surface capability – enhancing safety, improving productivity, achieving cost reductions, improving flow assurance and enabling ultra-deepwater operation.

These advances range across many enabling and production technologies, including pipelines, risers, welding and remote intervention.

Our technology teams include acknowledged world experts who also work with leading industry certifying authorities to steer the direction of research and help develop industry technical standards.

These technology teams have achieved award-winning industry recognition, and they collaborate with development partners, including clients, suppliers and research institutions.

We deploy our technological expertise through a number of global internal networks, including technical Communities of Excellence, in support of projects and our sales and marketing activity.



Assets

We invest in high-performing, industry-leading assets.
As a result of $3 billion of strategic investment over the last five years, our fleet of over 40 vessels is one of the largest and most versatile in the market.

The fleet includes a number of high-performance global enabling vessels. These are specifically designed to meet client requirements for vessels capable of executing ever-larger, more complex projects at greater depths and in harsher environments.

The fleet also features versatile locally-based construction, Remotely Operated Vehicles ('ROVs') and diving support vessels.

The composition of our fleet allows us to bring industry-leading pipelay, heavy lifting, ROV and diving support and construction capability to the global market.

It also enables us to meet cost-competitive local service demands in every major offshore region.

Advanced vessel support and management systems are also deployed to optimise global mobility and efficient fleet utilisation.

We also own and manage one of the world's largest fleets of ROVs, with over 175 units for deployment both on projects and for supply to clients.

We are committed to maintaining our market-leading fleet capability through continuing investment in new vessels, ROVs and related technologies.

Local presence

Long-term commitment to embedding local capability.
Building a strong local infrastructure gives us the flexibility to respond sensitively to local opportunities, and enhances our overall position as an effective global partner.

Having an embedded local presence allows us to build strong partnerships, and ensures that from an early stage of a project we are fully aligned with the strategic and commercial drivers of our clients.

We establish operational facilities and offices, and invest in strategically-located vessels, spoolbases, fabrication yards and logistics bases.

These are largely resourced by local workforces, working on a long-term basis with local suppliers to the benefit of the communities in which they are located.

We develop project management and supporting technical disciplines, and encourage our local operations to expand their capabilities.

To sustain this, we recruit and develop local talent through our highly-regarded learning and development programmes and by sharing our global experience.

In this way, we bring new capabilities into local economies.

OUR TECHNOLOGY

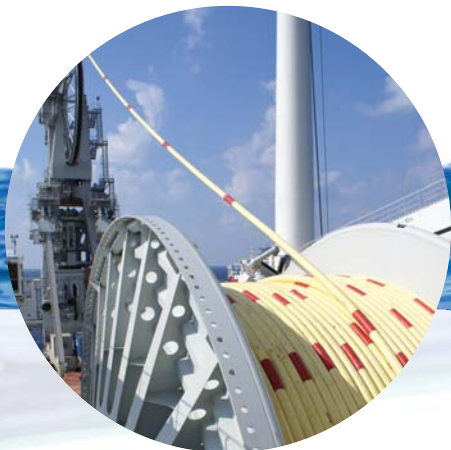
A leading provider of applied technology to the subsea sector

The ability to develop, apply and commercialise key enabling technologies is an increasingly important differentiator in the highly-challenging oil and gas market. The combination of our technology and engineering capabilities and our proven ability to deliver are key advantages when tendering for large, complex projects.

This has been a critical factor in securing recent contract awards.

Subsea 7 has a long, well-proven track record of working closely with clients, suppliers and partners to develop a range of technologies that enable our clients to overcome technical challenges and gain production and cost efficiencies.

Our engineering, technology and asset development teams are aligned to ensure that new technologies are also developed to enhance the capabilities of our fleet of global enabling and specialist vessels.



Pipelines

Pipeline technology that addresses the challenges of deepwater, longer tie-backs, flow assurance and corrosive products is critical to developing new fields.

In the case of flow assurance, and in particular thermal performance, we have collaborated with ITP on developing an advanced Electrically Trace Heated Pipe-in-Pipe solution which is the most technically advanced, thermally efficient system on the market today.

To address the challenge of transporting highly-corrosive products, we have similarly collaborated with the BUTTING Group, a leading pipe manufacturer, to further develop the BuBi® Mechanically Lined pipe to be installed by the reel-lay method.

This is a competitive alternative to technologies such as the more expensive alloys or metallurgically clad pipe. Its effectiveness has been recognised with a recent major contract award in Brazil and claiming one of the most prestigious pipeline industry awards in 2012, the Pipeline Industries Guild Award.

Our integrated pipeline Bundles technology is also recognised in our market as a key differentiator for Subsea 7. These Bundles incorporate all the structures, valve work, pipelines and controls necessary to operate a field in one single pre-assembled system. The finished Bundle is transported to its offshore location by the Controlled Depth Tow Method, delivering considerable value and cost savings to clients.

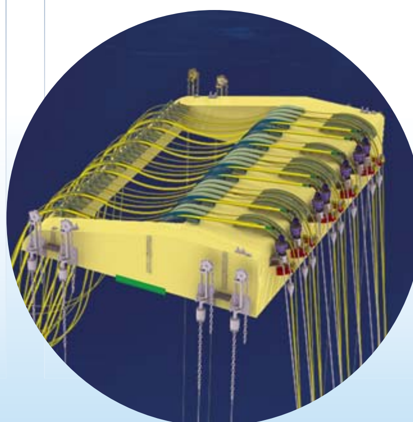
Risers

We have developed a unique suite of riser and related technologies to meet a wide range of specific field characteristics such as water depth, environmental conditions, host specification, hydrocarbon composition and client preferences. These systems include free-standing decoupled assemblies including Single and Hybrid Riser Towers, Grouped SLOR and conventional coupled Steel Catenary Risers.

We recently added further riser capability with the design and construction of a submerged buoy concept which has the advantages of being able to accommodate a very large number of risers in a small area in a controlled decoupled system. This is constructed onshore and towed out to location.

Looking to the future, the growing demand for increased corrosion resistance, high-pressure capacity requirements and fatigue life is driving the need for new materials. High-strength steels and composite materials such as carbon fibre are now being considered as realistic technological alternatives to conventional carbon steel.

We are actively engaged in developing and qualifying a number of these novel initiatives.



Welding

The increased demands on pipeline and riser specifications call for compatible advances in welding and inspection technology. We have an extensive ongoing welding Research and Development programme to enhance fatigue life and improve the quality of performance across a range of pipeline materials including conventional carbon steel, corrosion-resistant alloys and high-strength steel applications.

In many cases, welding technology can be the key element of a new pipeline technology initiative, for reel-lay, S-lay and J-lay installation.

Subsea 7 has specialist capability in developing and delivering state-of-the-art mechanised welding technology. Working in partnership with the world's leading designers and manufacturers of automated welding systems, our technology is aimed at giving our clients the assurance of quality and performance they require at a competitive cost.

Remote intervention

The increasing challenges posed by deepwater subsea system architecture and the need for Life-of-Field maintenance demand reliable, high-technology remote intervention solutions.

We have been pioneering the development of ROVs, tooling, inspection and repair technology for over 30 years. Our most recent innovation is the development of the most advanced hovering autonomous inspection vehicle (AIV) on the market today.

This vehicle, and the associated inspection and monitoring sensor technology, will provide an industry step-change for future underwater operations.

SOCIAL RESPONSIBILITY

Supporting local economies and communities

We are committed to the countries in which we operate, and we always recognise our wider responsibilities to the environment in which we live and work. We work with, guide and support local supply chains, and we also identify areas of community involvement where our voluntary efforts can make a difference.

Communities receive targeted support towards attaining their key objectives, while Subsea 7's volunteers invariably acquire enhanced team spirit, refined communication skills and valuable leadership experience.

Africa, Gulf of Mexico & Mediterranean (AFGOM)

Subsea 7 is actively involved in a large number of community initiatives across the Territory.

During 2012, the Block 31 PSVM Project team and crew of *Seven Sisters* combined to give practical support to Samusocial International, an Angolan organisation set up to provide medical, psychological and social support to street children in Luanda.

This involved donating educational materials and bedding, and helping to upgrade the power systems in the Arnaldo Janssen do Sanatorio's Centre, which provides safe accommodation and educational opportunities for 140 young Angolans.

During 2012, we also introduced a three-year educational sponsorship for children living in the isolated Nigerian village of Ikorodu, which lacks many basic amenities. The sponsorship covers school fees, uniforms, educational materials, after-school activities and healthcare at St. John's, a charity-run local primary school.

As in previous years, our Houston office raised funds for multiple sclerosis research and support by completing the 180-mile (290km) MS150 endurance cycle ride.

Asia Pacific & Middle East (APME)

Our Perth office nominated the Leukaemia Foundation as its main charity for 2012.

The Foundation invests in medical research in Australia into leukaemias, lymphoma, myeloma and related blood disorders, and provides valuable support services for patients and their families.

To help raise awareness and funds for this cause, a number of fund-raising activities were held in Perth throughout the year.

In April, our Singapore and Kuala Lumpur offices organised a number of activities in support of Earth Day, an environmental movement dedicated to promoting worldwide sustainable development.

This included initiating an Earth Day poster competition, with the winning entries displayed in a major Singapore retail centre, where staff volunteers encouraged shoppers to make a community pledge towards improved environmental awareness.

Brazil

In Brazil we have a wide-ranging programme of voluntary activities designed to make a positive contribution to the local communities in which our people live and work.

During 2012, we expanded our successful 'Ilha do Futuro' ('Island of the Future') programme in Ilha da Conceição, where our Niteroi base is located. This initiative provides free cultural, sporting and educational activities for over 250 residents every month in previously under-utilised local facilities.

In Rio de Janeiro, Niteroi and other urban centres in Brazil, we are an active supporter of 'Casa da Árvore' ('Tree House'), a pioneering project that provides care and psychological support for children under ten who have problems with social integration.

For over a decade, we have also managed a practical social accountability programme called 'Ação Esperança' ('Actions of hope'), where we raise funds from the sale of surplus and recyclable materials and staff donations to provide emergency bedding, clothing and food to charitable organisations who work with the victims of emergencies.

North Sea & Canada (NSC)

During 2012, Subsea 7 continued its support in the UK for the Juvenile Diabetes Research Foundation ('JDRF'), the world's leading charitable funder of Type 1 diabetes research. Our main contribution to JDRF was in Aberdeen, where we were a Silver Sponsor for the Walk to Cure Diabetes, a major local annual fund-raising event.

During the year, Aberdeen also hosted regular blood donor sessions at our fitness centre.

In Norway, our Stavanger office continued its long-term support for both national and local humanitarian and charitable causes. This year it supported a number of organisations, among them the Norwegian Sea Rescue, the Salvation Army, the National Association of Crime Victims and The Rabble Project, a local charity which aims to help young people into work or further education.

Our St. John's office in Canada is also active in supporting local causes, including hosting an annual fundraising golf tournament called the 'Tee It Up for the Kids Golf Classic' in support of the Easter Seals Charity, which provides recreational programmes for children with physical disabilities.

BOARD OF DIRECTORS

1. Kristian Siem, 1949
Chairman[2, 3]

Mr Siem became Chairman of the Board of Directors of Subsea 7 S.A. in January 2011, prior to which he was Chairman of the Board of Directors of Subsea 7 Inc. from January 2002. Mr Siem has a degree in Business Economics and has been active in the oil and gas industry since 1972. Mr Siem is the Chairman of Siem Industries Inc. and Siem Industrikapital AB. Mr Siem is a Director of Siem Offshore Inc., Siem Shipping Inc. (formerly Star Reefers Inc.), North Atlantic Smaller Companies Investment Trust plc and Frupor S.A. Past directorships include Aker Kvaener and Transocean Inc. Mr Siem is a Norwegian citizen.

2. Sir Peter Mason KBE, 1946
Senior Independent Director*[2]

Sir Peter Mason KBE has been the Senior Independent Director of Subsea 7 S.A. since January 2011, prior to which he was Chairman of Subsea 7 S.A. from May 2009. Previously he served as an Independent Director of Subsea 7 S.A. from October 2006. Sir Peter brings extensive management and oil service experience, having served as Chief Executive of AMEC from 1996 until his retirement in September 2006. Prior management positions include Executive Director of BICC plc and Chairman and Chief Executive of Balfour Beatty. He is a Fellow of the Institution of Civil Engineers, a Fellow of the Royal Academy of Engineering and holds a Bachelor of Science degree in Engineering. Sir Peter has been Chairman of the Board of Directors of Thames Water Utilities Ltd since December 2006; a Non-Executive Director of BAE Systems plc since January 2003 and since 2011 a Non-Executive Director of Spie S.A. Sir Peter is a British citizen.

3. Jean Cahuzac, 1954
Chief Executive Officer

Mr Cahuzac has been Chief Executive Officer of Subsea 7 S.A. since April 2008 and an Executive member of the Board of Directors since May 2008. Mr Cahuzac has over 30 years' experience in the offshore oil and gas industry, having held various technical and senior management positions around the world. From 2000 until April 2008 he worked at Transocean in Houston, US, where he held the positions of Chief Operating Officer and then President, prior to the merger with Global SantaFe. Prior to this he worked at Schlumberger from 1979 to 2000 where he served in various positions including Field Engineer, Division Manager, VP Engineering and Shipyard Manager, Executive VP and President. He holds a Master's degree in Mechanical Engineering from École des Mines de St-Ètienne and is a graduate of the French Petroleum Institute in Paris. Mr Cahuzac has no other external appointments to public companies. As an Executive Director, Mr Cahuzac is not a member of any of the Board Committees. Mr Cahuzac is a French citizen.

4. Eystein Eriksrud, 1970
Director[1]

Mr Eriksrud joined the Board of Directors of Subsea 7 S.A. in March 2012. Mr Eriksrud is the Deputy CEO of the Siem Industries Group. Prior to joining Siem Industries in October 2011, Mr Eriksrud was partner of the Norwegian law firm Wiersholm Mellbye & Bech, from 2005, working as a business lawyer with an internationally oriented practice in mergers and acquisitions, company law and securities law, particularly in the shipping, offshore and oil service sectors. Mr Eriksrud was Group Company Secretary of the Kvaerner Group from 2000-2002 and served as Group General Counsel of the Siem Industries Group from 2002-2005. He is a candidate of jurisprudence from the University of Oslo. Mr Eriksrud has served on the boards of Privatbanken ASA and Tinfos AS as well as a number of other boards. He is the Chairman of Siem Offshore Inc., and a Director of Siem Kapital AS, Siem Capital UK Ltd., Siem Europe Sarl and Veripos Inc. Mr Eriksrud is a Norwegian citizen.

5. Dod Fraser, 1950
Independent Director*[1]

Mr Fraser joined the Board of Directors of Subsea 7 S.A. in December 2009. Mr Fraser is President of Sackett Partners Incorporated, a consulting company, and a member of various corporate boards. Mr Fraser served as a Managing Director and Group Executive with Chase Manhattan Bank, now JP Morgan Chase, leading the global oil and gas group from 1995 until 2000. Until 1995 he was a General Partner of Lazard Frères & Co. Mr Fraser has been a trustee of Resources for the Future, a Washington-based environmental policy think-tank. He is a graduate of Princeton University. Mr Fraser is a Board member of Forest Oil Corporation and is a former Director of Terra Industries, Inc. and Smith International Inc. Mr Fraser is a US citizen.

6. Robert Long, 1946
Independent Director*3

Mr Long joined the Board of Directors of Subsea 7 S.A. in January 2011. Mr Long served as Chief Executive Officer and a member of the Board of Directors of Transocean Ltd. from October 2002 until his retirement in February 2010. Mr Long served as President from 2001 to 2006, Chief Financial Officer from 1996 to 2001 and Senior VP of Transocean from May 1990 until the time of the Sedco Forex merger, at which time he assumed the position of Executive VP. During his 35-year career with Transocean, his international assignments included the UK, Egypt, West Africa, Spain and Italy. Mr Long is a graduate of the U.S. Naval Academy and Harvard Business School, and served five years in the Naval Nuclear Power Programme before joining SONAT Inc, the parent company of The Offshore Company (which subsequently became Transocean Ltd.), in 1975. Mr Long has no other external appointments to public companies. Mr Long is a US citizen.

7. Arild Schultz, 1944
Director*3

Mr Schultz joined the Board of Directors of Subsea 7 S.A. in January 2011. Prior to this he was a member of the Board of Directors of Subsea 7 Inc. from August 2002. Mr Schultz has been in several leading positions within shipping chartering and broking, and since 1980 has been conducting his own business within project financing and consulting. He has a Master of Business Administration Degree from the University of Utah. Mr Schultz has no other external appointments to public companies. Mr Schultz is a Norwegian citizen.

8. Allen Stevens, 1943
Independent Director*2

Mr Stevens joined the Board of Directors of Subsea 7 S.A. in January 2011. Prior to this he was a member of the Board of Directors of Subsea 7 Inc. from December 2005. Mr Stevens gained extensive marine industry and maritime financing experience holding senior executive and management positions with Great Lakes Transport Limited, McLean Industries Inc. and Sea-Land Service Inc. A graduate of the University of Michigan and Harvard Law School, Mr Stevens brings to the role many years of experience in shipping, finance and management. Mr Stevens is a Vice President of Masterworks Development Corporation, a hotel developer and operator. Mr Stevens is a US citizen.

9. Trond Westlie, 1961
Independent Director*1

Mr Westlie joined the Board of Directors of Subsea 7 S.A. in June 2004. Mr Westlie was appointed Group Chief Financial Officer of A.P. Møller-Maersk A/S on January 1, 2010, and is a member of their Executive Board. He was previously Executive Vice President and Chief Financial Officer of the Telenor Group. He gained extensive experience in the oil and gas service sector as Executive Vice President and Chief Financial Officer of Aker Kvaerner ASA from 2002 to 2004; as Executive Vice President and Chief Financial Officer of Aker Maritime ASA from 2000 to 2002, and Executive Vice President, Business Development for Aker RGI ASA from 1998 to 2000. He has served on numerous corporate boards. Mr Westlie qualified as a State Authorised Public Auditor from Norges Handelshøyskole (the Norwegian School of Economics and Business Administration). In addition to the above-mentioned positions in A.P. Møller-Maersk A/S, Mr Westlie is also a Board member of Danske Bank A/S and Danmark Skibskredit A/S. Mr Westlie is a Norwegian citizen.

Committee membership

1. Audit Committee
2. Corporate Governance and Nominations Committee
3. Compensation Committee

Independent Directors

* As used above, 'independence' is as defined in the Relationship Agreement, dated 20 June 2010 between Subsea 7 Inc., Subsea 7 S.A. and Siem Industries Inc., which expired on 20 December 2012. Additionally, at all times, including from the end of the standstill period, the Board must satisfy the rules and codes of corporate governance of Oslo Børs on which Subsea 7 S.A. is listed. Mr Arild Schultz is deemed independent from 20 December 2012 ie the expiry of the above-referenced Relationship Agreement.

Under the terms of the Company's Articles of Incorporation, directors may be elected for terms of up to two years and serve until their successors are elected. The current term of each of Mr Dod Fraser, Mr Arild Schultz, Mr Allen Stevens and Mr Trond Westlie, will expire at the Annual General Meeting on 28 June 2013. Mr Arild Shultz and Mr Trond Westlie will not be standing for re-election. The current term of the remaining directors, Mr Kristian Siem, Sir Peter Mason KBE, Mr Jean Cahuzac, Mr Eystein Eriksrud and Mr Robert Long will expire at the Annual General Meeting to be held in June 2014. Under the Company's Articles of Incorporation, the Board must consist of not fewer than three directors.

EXECUTIVE MANAGEMENT TEAM

Name	**Jean Cahuzac,** 1954	**John Evans,** 1963	**Steve Wisely,** 1962
Title	Chief Executive Officer	Chief Operating Officer	Executive Vice President – Commercial
Appointment	Mr Cahuzac has been Chief Executive Officer of Subsea 7 S.A. since April 2008 and became an Executive member of the Board of Subsea 7 S.A. in May 2008.	Mr Evans has been Chief Operating Officer of Subsea 7 since July 2005.	Mr Wisely has been Executive Vice President – Commercial of Subsea 7 since January 2010.
Skills and experience	Jean's full biography is included under Board of Directors on page 18.	John started his career in the oil and gas engineering and contracting sector in 1987 working with Kellogg Brown & Root ('KBR'). During 18 years with KBR he gained a successful record in general management, commercial and operational roles in the offshore oil and gas industry. Prior to joining Subsea 7, between 2002 and mid-2005, John was Chief Operating Officer for KBR's Defence and Infrastructure business in Europe and Africa. Mr Evans has a Bachelor of Engineering degree in Mechanical Engineering from Cardiff University, is a Chartered Mechanical and Marine Engineer, and a Chartered Director. Mr Evans is a British citizen.	Steve started his career in the oil and gas industry with Wharton Williams (2W) in Aberdeen in 1987. Since then he has held a number of commercial and operational positions with Subsea 7 and its predecessor companies in the UK and overseas, including Norway and Singapore. In 1997 Steve was appointed Vice President Asia Pacific, based in Singapore. He returned to the UK in 2006 as Vice President UK and then Vice President Global Business Acquisition. During 2009 Steve spent a further period in Asia Pacific before taking up his current role. Mr Wisely is a graduate of Robert Gordon University in Aberdeen with a degree in Quantity Surveying. Mr Wisely is a British citizen.

Roles in 'Subsea 7' are referred to as the amalgamation of respective roles in the legacy entities ie Acergy S.A and Subsea 7 Inc., including roles prior to or after the Combination of the two businesses in January 2011.

Nathalie Louys, 1963

General Counsel

Ms Louys has been General Counsel of Subsea 7 since April 2012.

Nathalie started her legal career in 1986 working with Saint Gobain and Eurotunnel, gaining extensive legal experience across a number of industries.

In 1996 she joined Technip, based in Paris, progressing to the role of Vice President Legal – Offshore.

In 2006 Nathalie joined Subsea 7 and subsequently worked in a number of senior corporate and operational legal roles. Prior to her current appointment Nathalie was Vice President Legal – Commercial.

Ms Louys is admitted to the Paris Bar and has legal qualifications from University Paris I – Panthéon Sorbonne and Paris XI in France and the University of Kent in UK.

Ms Louys is a Belgian citizen.

Keith Tipson, 1958

Executive Vice President – Human Resources

Mr Tipson has been Executive Vice President – Human Resources of Subsea 7 since November 2003.

Keith started his career in the engineering and construction project sectors in 1980 working with the Dowty Group.

In 1988 he moved to Alstom with whom he held a number of roles based in Belgium, France, Switzerland and UK, including the positions of Human Resources Director for the Industrial Equipment Division, the International Network and the Steam and Hydro segments of ABB Alstom Power joint venture.

Prior to joining Subsea 7 he held the position of Senior Vice President Human Resources, Power Sector based in Paris.

Mr Tipson has a business degree from the University of West London.

Mr Tipson is a British citizen.

Ricardo Rosa, 1956

Chief Financial Officer

Mr Rosa has been Chief Financial Officer of Subsea 7 since July 2012.

Ricardo started his career in 1977 with Price Waterhouse in London and transferred in 1981 to Rio de Janeiro.

In 1983 he joined Schlumberger where he held various financial positions in the Group working in Paris, Jakarta, Rio de Janeiro, Caracas, Milan and London.

In 2000 he joined Transocean as Vice President and Controller in Houston, subsequently becoming Senior Vice President for Asia Pacific in Singapore, and then for Europe and Africa, in Paris.

Prior to joining Subsea 7, he was Transocean's Executive Vice President and CFO.

Mr Rosa holds an MA in Modern Languages from Oxford University and is a member of the Institute of Chartered Accountants in England and Wales.

Mr Rosa has dual British and Brazilian citizenship.

CORPORATE GOVERNANCE

2012 Corporate Governance Report

The Board of Directors is committed to meeting high corporate governance standards in pursuing our corporate vision. We are committed to cultivating a value-based performance culture that rewards exemplary ethical behaviours, respect for the environment, and personal and corporate integrity. We believe that there is a link between high-quality governance and the creation of shareholder value.

The Board of Directors has determined the values by which the Group conducts its business as set out on page 2. Corporate social responsibility is embedded in these values and the Group's Code of Conduct enforces these values. The Subsea 7 Code of Conduct is available on Subsea 7's website: www.subsea7.com

Corporate governance at Subsea 7

Subsea 7 S.A.'s Board of Directors is responsible for, and committed to, the maintenance of high standards of corporate governance at all times throughout the Group. The Board of Directors strongly believes that the observance of these standards is in the best interests of all our stakeholders.

The Board of Directors is charged with ensuring that the Group conducts its business in accordance with exacting standards of business practice worldwide and observes high ethical standards. The Group conducts its operations in challenging environments, which heightens the need for a robust culture of governance, and the role of the Board of Directors is to proactively encourage, monitor and safeguard this governance culture. The Board of Directors and its Committees oversee the management of the Group's operations and the effectiveness of its internal controls.

The work of the Board of Directors is based on a clearly defined division of roles and responsibilities between the shareholders, the Board of Directors and the Executive Management Team. Our governing structures and controls help to ensure that we run our business in an appropriate manner for the benefit of shareholders, employees, clients and other stakeholders in the societies in which the Group operates.

Legal and regulatory framework

Subsea 7 S.A. is a 'société anonyme' organised in the Grand Duchy of Luxembourg under the Company Law of 1915, as amended, and was incorporated in Luxembourg in 1993 as the holding company for all of the Group's activities.

Subsea 7 S.A.'s registered office is located at 412F, route d'Esch, L-2086 Luxembourg. The Company is registered with the Luxembourg Register of Commerce and Companies under the designation 'R.C.S. Luxembourg B 43172'. As a company incorporated in Luxembourg and with shares traded on Oslo Børs and ADRs traded over-the-counter in the US, Subsea 7 S.A. is subject to Luxembourg laws and regulations with respect to corporate governance.

As a company listed on Oslo Børs, the Company follows the Norwegian Code of Practice for Corporate Governance on a 'comply or explain' basis, where this does not contradict Luxembourg laws and regulations. The Norwegian Code of Practice for Corporate Governance is available at http://www.nues.no/en/ .

The Company delisted from NASDAQ Global Select Market in March 2011 and was deregistered from the SEC in 2012.

The Group's corporate governance policies and procedures are explained below, with reference to the principles of corporate governance as set out in the sections identified in the Norwegian Code of Practice for Corporate Governance dated 23 October 2012.

Implementation and reporting on corporate governance

Subsea 7 S.A. acknowledges the division of roles between shareholders, the Board of Directors and the Executive Management Team. The Group further ensures good governance is adopted by holding regular Board of Directors meetings which the Executive Management Team attend to present strategic, operational and financial matters.

The Group's vision is:

To be acknowledged by our clients, our people and our shareholders as the leading strategic partner in seabed-to-surface engineering, construction and services.

The Group's Values focus on: Safety, Integrity, Innovation, Performance and Collaboration.

In pursuit of the five Values the Group has a Code of Conduct which reflects its commitment to shareholders, employees and clients to conduct business legally and with integrity and honesty. The Code of Conduct was approved by the Board of Directors and was issued to all directors, officers and employees and is subject to periodic review and updating.

Articles of Incorporation

As stated in its Articles of Incorporation, Subsea 7 S.A.'s business activities are as follows:

"The objects of the Company are to invest in subsidiaries which predominantly will provide subsea construction, maintenance, inspection, survey and engineering services, in particular for the offshore oil and gas and related industries. The Company may further itself provide such subsea construction, maintenance, inspection, survey and engineering services, and services ancillary to such services. The Company may, without restriction, carry out any and all acts and do any and all things that are not prohibited by law in connection with its corporate objects and to do such things in any part of the world whether as principal, agent, contractor or otherwise. More generally, the Company may participate in any manner in all commercial, industrial, financial and other enterprises of Luxembourg or foreign nationality through the acquisition by participation, subscription, purchase, option or by any other means of patents and licenses which it will administer and exploit; it may lend or borrow with or without security, provided that any monies so borrowed may only be used for the purposes of the Company, or companies which are subsidiaries of or associated with or affiliated to the Company; in general it may undertake any operations directly or indirectly connected with these objects."

Luxembourg law requires the convening of an extraordinary general meeting of shareholders to resolve upon any amendment to the Articles of Incorporation. An extraordinary general meeting of shareholders must have a quorum of at least 50% of the capital present or represented. If that quorum is not reached, the extraordinary general meeting of shareholders may be reconvened. At such reconvened meeting, no quorum will be required. Irrespective of whether the proposed matter will be subject to a vote at the first or at a subsequent extraordinary general meeting of shareholders, its approval will require at least two thirds of the votes cast in favour at such extraordinary general meeting of shareholders. Abstentions are not considered as votes.

The Company's Articles of Incorporation are available on Subsea 7's website: www.subsea7.com

Business

The Board of Directors has set strategies and targets for the Company's business.

Subsea 7 provides all the products and services required for subsea field development, including project management, design and engineering, procurement, fabrication, survey, installation, and commissioning of production facilities on the seabed and the tie-back of these facilities to fixed or floating platforms or to the shore.

The Group also offers the full spectrum of products and capabilities to deliver full Life-of-Field services to its clients.

Through the i-Tech division, the Group provides ROVs and intervention tooling services to support exploration and production activities.

Further details of the Group's business are outlined in the What we do section on pages 4-5 and Where we operate on pages 6-7.

Equity and dividends

Shareholders' equity

Total shareholders' equity at 31 December 2012 was $6.32 billion (2011: $5.78 billion) which the Board of Directors believe is satisfactory given the Group's strategy, objectives and risk profile.

Dividend policy

It is Subsea 7's objective to give its shareholders a competitive return on their invested capital over time. The return is to be achieved through a combination of dividend payments, share re-purchases and an increase in the value of the Company's shares over time through disciplined investment in value-adding growth opportunities.

The Board of Directors each year, after evaluating the Company's financial position and re-investment opportunities, may decide to recommend that shareholders approve at the Annual General Meeting ('AGM') an appropriate dividend. This dividend will normally be paid in the month following the approval at the AGM.

Equity mandates

At the 2011 Annual General Meeting, and in accordance with the Articles of Incorporation, the Board of Directors were given authority under which they can approve the purchase of Company shares up to a limit of 10% of the issued common shares, net of the common shares previously repurchased and still held. This authority is subject to certain purchase price conditions and applies to purchases completed on or before 26 May 2016. Such a mandate, valid for five years, is allowed under Luxembourg law under which law the Company is incorporated.

Equal treatment of shareholders and transactions with close associates

Different classes of shares

The Company has one class of shares which are listed on Oslo Børs. Each share carries equal rights including an equal voting right at annual or extraordinary general meetings of shareholders of the Company. No shares carry any special control rights. The Articles of Incorporation contain no restrictions on voting rights. The Board's right to acquire the Company's own shares (as detailed above) is conditional on such purchases being made in open market transactions through Oslo Børs, subject to certain limitations.

Share issues

Under the Articles of Incorporation, the Board of Directors is authorised to suppress the pre-emptive rights of shareholders under certain circumstances. As stipulated in the Articles of Incorporation, this is to allow flexibility to deal with matters deemed to be in the best interest of the Company.

Under the Articles of Incorporation, the Board of Directors is authorised to issue a number of shares corresponding to the difference between the authorised and issued share capital. On 9 November 2015 the authorisation to issue shares under the authorised share capital expires and any authorised but unissued shares lapse.

In the event of the Board of Directors resolving to issue new shares and waive the pre-emptive rights of existing shareholders, the Board of Directors intend to comply with recommendation of The Norwegian Code of Practice for Corporate Governance that the justification for such waiver is noted in the Stock Exchange announcement relating to such a share issue.

Related party transactions

Any transactions between the Group and members of the Board of Directors, executive management or close associates are detailed in Note 36 'Related party transactions' to the Consolidated Financial Statements.

The Board of Directors will, from time to time, determine the necessity of obtaining third-party valuations on transactions with related parties. Under Luxembourg law, directors may not vote on transactions in which they are personally interested.

The Group's Code of Conduct requires any director or employee to declare if they hold any direct or indirect interest in any transaction entered into by the Group.

Freely negotiable shares

Subsea 7's shares are traded as common shares on Oslo Børs and as ADRs over-the-counter in the US. All shares are freely negotiable. The Articles of Incorporation contain no form of restriction on the negotiability of shares in the Company.

General meetings

The AGM is held each year, on the fourth Friday in June, in Luxembourg. The notice of meeting and agenda documents for the AGM are posted on the Group's website at least 21 days prior to the meeting and shareholders receive the information at least 21 days prior to the meeting by mail. Documentation from previous AGMs is available on the Subsea 7 website: www.subsea7.com.

All shareholders that are registered with the Norwegian Central Securities Depository System receive a written notice of the AGM. The Company will set a record date. Subject to the procedures described in the Articles of Incorporation, all shareholders, holding at least 10% of the issued shares, have the right to submit proposals or draft resolutions. All shareholders on the register as at the record date will be eligible to attend in person, or vote by proxy, at the AGM.

Proxy forms are available and may be submitted by eligible shareholders which allow separate voting instructions to be given for each matter and for each of the candidates nominated and also allow a person to be nominated to vote on behalf of shareholders as their proxy.

The record date is set as close as practicable to the date of the AGM, taking into account the differing deadlines for ADR and common share proxies. Procedures will be in place to vote separately on each candidate nominated for election to the Board of Directors. Resolutions and supporting information distributed to the shareholders ahead of the AGM will be sufficiently detailed.

The Articles of Incorporation of the Company stipulate that the AGM be chaired by the Chairman of the Board of Directors, however, in the event the Chairman is absent, then the Board of Directors ordinarily delegates authority to the Company Secretary to chair the AGM. However, if a majority of the shareholders request an alternative independent chairman, one will be appointed.

All directors are encouraged to attend the AGM. The AGM of shareholders, inter alia, elects the Board of Directors for nominated terms of appointment, approves the Company's annual accounts, the Annual Report and Consolidated Financial Statements of the Group, votes on the discharge of the Directors and Company and appoints the external auditor. The Chairman of the Board of Directors is elected by the directors.

Nominations committee

The Board of Directors has established a Corporate Governance and Nominations Committee. The composition of this Committee is for the Board of Directors to determine. The Board of Directors believe that the Committee, comprising certain members of the Board of Directors, the majority of whom are independent of the Company's main shareholders, has the most suitable level of understanding of the Company to carry out the duties of the Committee.

Corporate Governance and Nominations Committee

Committee members
Sir Peter Mason KBE – Committee Chairman
Kristian Siem
Allen Stevens

The Corporate Governance and Nominations Committee's main responsibilities are:

1. Actively seeking and evaluating individuals qualified to become directors of the Company and nominate director candidates to the Board of Directors.
2. Periodically reviewing the composition and duties of the Company's permanent committees and recommend any changes to the Board of Directors.
3. Periodically reviewing the compensation of directors and make any recommendations to the Board of Directors.
4. Annually reviewing the duties and performance of the Chairman of the Board and recommend to the Board of Directors a director for election by the Board of Directors to the position of Chairman of the Board.
5. Annually reviewing the Corporate Governance Guidelines, procedures and policies of the Board of Directors and recommending to the Board of Directors any changes and/or additions thereto that they believe are desirable and/or required. These governance guidelines include the following:

- how the Board of Directors is selected and compensated (size of and term of the members of the Board of Directors, selection, compensation and qualifications of directors, independence, director retirement and conflicts of interests)
- how the Board of Directors functions (for example, procedures as to Board meetings, agendas, committee structure and format and distribution of Board materials)
- how the Board of Directors interacts with shareholders and management (for example, selection and evaluation of the CEO, succession planning, communications with shareholders, access to management and shareholding by directors).

6. Overseeing the annual evaluation of the Board of Directors's performance.
7. Annually reviewing the Committee's own performance.

The Committee's Charter is available on the Subsea 7 website: www.subsea7.com

Corporate assembly and Board of Directors: composition and independence

As a Luxembourg incorporated entity, the Company does not have a corporate assembly.

The Board of Directors comprises nine* directors, the majority of whom are independent.

Board Members

Kristian Siem	Chairman
Sir Peter Mason KBE	Senior Independent Director
Jean Cahuzac	Chief Executive Officer
Eystein Eriksrud	Director
Dod Fraser	Independent Director
Robert Long	Independent Director
Arild Schultz**	Director
Allen Stevens	Independent Director
Trond Westlie	Independent Director

* Two directors, Mr Arild Shultz and Mr Trond Westlie, will not be standing for re-election at the expiry of their current terms as directors of the Company at the Annual General Meeting on 28 June 2013. The Board of Directors will then comprise seven members.

** Arild Schultz is deemed independent from 20 December 2012 i.e. the expiry of the Relationship Agreement.

Biographies of the individual directors are detailed on pages 18-19.

The majority of the directors were, during the financial year 2012, considered Independent within the meaning of the Relationship Agreement, which expired on 20 December 2012. At all times, the Board of Directors must satisfy the independence criteria of the Norwegian Code of Practice for Corporate Governance.

Mr Cahuzac, the Chief Executive Officer ('CEO'), was first appointed to the Board of Directors in May 2008. The Board of Directors operates controls to ensure that no conflicts of interest exist with respect to his position on the Board of Directors. The Charters of the permanent committees do not permit executive management to be members, accordingly, Mr Cahuzac does not sit on any of the Committees. The composition of the Company's Board of Directors and the controls to avoid conflicts of interest are in accordance with both Luxembourg company law and good corporate governance practice.

The Board of Directors endeavours to ensure that it is constituted by directors with a varied background and with the necessary expertise, diversity and capacity to ensure that it can effectively function as a cohesive body. Prior to proposing candidates to the general meeting for election to the Board of Directors, the Corporate Governance and Nominations Committee recommends candidates to the Board of Directors which then seeks to consult with the Company's major shareholders.

Directors are elected by the general meeting for a term not exceeding two years and may be re-elected. Directors need not be shareholders. The general meeting may dismiss any director, with or without cause, at any time notwithstanding any agreement between the Company and the director. Such dismissal may not prejudice the claims that a director may have for indemnification as provided for in the Articles of Incorporation or for a breach of any contract existing between him or her and the Company.

If there is a vacancy on the Board of Directors, the remaining directors appointed by the general meeting have the right to appoint a replacement director until the next meeting of shareholders who will ratify such appointment.

The Articles of Incorporation provide that with the exception of a candidate recommended by the Board of Directors, or a director whose term of office expires at a general meeting of the Company, no candidate may be appointed unless at least three days and no more than 22 days before the date of the relevant meeting, a written proposal, signed by a shareholder duly authorised, shall have been deposited at the registered office of the Company together with a written declaration, signed by the proposed candidate confirming his or her wish to be appointed.

Attendance by directors at the meetings of the Board of Directors and its Committees during 2012 is summarised below:

2012 Meetings

	Board	Audit Committee	Corporate Governance and Nominations Committee	Compensation Committee
Kristian Siem	6/6		2/2	7/7
Sir Peter Mason KBE	6/6		2/2	
Jean Cahuzac	6/6			
Dod Fraser	6/6	4/4		
Robert Long	6/6			7/7
Arild Schultz	6/6			6/7
Allen Stevens	6/6		2/2	
Trond Westlie	5/6	4/4		
Eystein Eriksrud*	4/6	3/4		

* Eystein Eriksrud was appointed to the Board of Directors on 15 March 2012.

The directors of the Board are encouraged to hold shares in the Company as the Board of Directors believe it promotes a common financial interest between the members of the Board of Directors and the shareholders of the Company. Details of the directors' share holdings are on page 94.

The work of the Board of Directors

The Board of Directors adhere to the Board Charter.

The Board of Directors' main responsibilities are:

1. Setting the values used to guide the affairs of the Group. This includes the Group's commitment to achieving its health and safety vision and the Group's adherence to the highest ethical standards in all of its operations worldwide.
2. Integrating environmental improvement into business plans and strategies, and seeking to embed sustainability into the Group's business processes.
3. Overseeing the Group's compliance with its statutory and regulatory obligations and ensuring that systems and processes are in place to enable these obligations to be met.
4. Setting the strategy and targets of the Group.
5. Establishing and maintaining an effective corporate structure of the Group.
6. Overseeing the Group's compliance with financial reporting and disclosure obligations.
7. Overseeing the risk management of the Group.
8. Overseeing Group communications.
9. Determining its own composition, subject to the provisions of the Company's Articles of Incorporation.
10. Ensuring the effective corporate governance of the Group.
11. Setting and approving policies.

The Board of Directors's Charter is available on the Subsea 7 website: www.subsea7.com

During the year, the Board of Directors sets a plan for its work for the following year which includes a review of strategy, objectives and their implementation, the review and approval of the annual budget and the review and monitoring of the Group's current year financial performance. In 2013, the Board of Directors is scheduled to convene on five occasions, but the schedule is flexible to react to operational or strategic changes in the market and Group circumstances.

The Board of Directors has overall responsibility for the management of the Group and has delegated the daily management and operations of the Group to the CEO who is appointed by, and serves at, the discretion of, the Board of Directors. The CEO is supported by the other members of the Executive Management Team, further details of whom are on page 20-21. The Executive Management Team has the collective duty to deliver Subsea 7's strategic, financial and other objectives, as well as to safeguard the Group's assets, organisation and reputation.

It is the duty of the Executive Management Team to provide the Board of Directors with appropriate, precise and timely information on the operations and financial performance of the Group, which is imperative in order for the Board of Directors to perform its duties. In addition to the previously mentioned Corporate Governance and Nominations Committee, the Board of Directors has established a Compensation Committee and an Audit Committee, each of which has a Charter approved by the Board of Directors. Matters are delegated to the Committees as appropriate. The directors appointed to these Committees are selected based on their experience and to ensure the Committees operate in an effective manner. The minutes of all Committee meetings are circulated to all directors.

The performance and expertise of the Board of Directors is monitored and reviewed annually, including an evaluation of the composition of the Board of Directors and the manner in which its members function both individually and as a collegiate body.

Risk management and internal control

The Board of Directors acknowledges its responsibility for the Group's system of internal control and for reviewing its effectiveness. The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group adopts internal controls appropriate to its business and culture. The key components of the Group's system of internal control are described in the Risk Management section on pages 28-29. The Group has in place clearly defined lines of responsibility and limits of delegated authority. Comprehensive procedures provide for the appraisal, approval, control and review of capital expenditure. The Executive Management Team meet with other senior management on a regular basis to discuss particular issues including key operational and commercial risks, health and safety performance and legal and financial matters.

The Group has a comprehensive annual planning and management reporting system. A detailed annual budget is prepared in advance of each year and supplemented by forecasts updated during the course of the year. Financial results are reported to the Executive Management Team monthly and to the Board of Directors quarterly and compared to budget, forecasts and prior year results. The Board of Directors reviews and approves reports on actual and forecasted financial performance.

The Board of Directors derives further assurances from the reports of the Audit Committee. The Audit Committee has been delegated responsibility to review the effectiveness of the internal financial control systems implemented by management and is assisted by internal audit and the external auditors where appropriate.

Remuneration of the Board of Directors

The Company's directors receive remuneration in accordance with their individual roles and Committee membership. The remuneration of the CEO is detailed in Note 36 'Related party transactions' to the Consolidated Financial Statements. The directors are encouraged to own shares in the Company but no longer participate in any incentive or share option schemes, with the exception of Mr Cahuzac in his capacity as CEO and as Executive Director. Two Non-Executive Directors (Sir Peter Mason KBE and Mr Westlie) were previously awarded, and continue to hold, share options. The remuneration of the Board of Directors is approved at the AGM annually as part of the accounts and is disclosed in Note 36 'Related party transactions' to the Consolidated Financial Statements. Directors are not permitted to undertake specific assignments for the Group unless this has been disclosed to, and approved in advance by, the full Board of Directors.

Remuneration of the Executive Management

The Compensation Committee

Committee members
Kristian Siem – Committee Chairman
Robert Long
Arild Schultz

The Compensation Committee's main responsibilities are:

1. Reviewing annually and approving the compensation paid to the Executive Management Team and senior managers of the Company with the exception of the CEO where the Committee may make a recommendation to the Board of Directors.
2. Establishing annually performance objectives for the Company's CEO and annually reviewing the CEO's performance against objectives and setting the CEO's compensation based on its evaluation.
3. Overseeing the Company's Benefit Plans in accordance with the objectives of the Company established by the Board of Directors.
4. Reviewing executive compensation plans and making recommendations to the Board of Directors on the adoption of new plans or programmes.
5. Recommending to the Board of Directors the terms of any contractual agreements and any other similar arrangements that may be entered into with executive officers of the Company and of its subsidiaries.
6. Approving appointments of the CEO, the CEO's direct reports and certain other appointments.
7. Preparing the report on executive compensation to be included in the Company's Annual Report.

The Committee's Charter is available on the Subsea 7 website: www.subsea7.com.

The Group's remuneration policy is set by the Compensation Committee. The policy is designed to provide remuneration packages which will help to attract, retain and motivate senior management to achieve the Group's strategic objectives and to enhance shareholder value. The Compensation Committee benchmarks executive remuneration against comparable companies, and seeks to ensure that the Group offers rewards and incentives which are competitive with those offered by the Group's peers. The Committee also seeks to ensure that the remuneration policy is applied consistently across the Group, and that remuneration is fair and transparent, whilst encouraging high performance.

Remuneration comprises base salary, bonus, share-based payments, benefits-in-kind and pension. In benchmarking elements of remuneration against Subsea 7's peers, the Compensation Committee may from time to time take advice from external consultants. Performance-related remuneration schemes define limits in respect of the absolute awards available. These are defined within the scheme arrangements and set out limits regarding the total award in a given year and, in specific instances, the total award available to certain individuals.

Chief Executive Officer remuneration
The remuneration package of the CEO was determined by the Board of Directors, on the recommendation of the Compensation Committee. As noted above, the compensation of the CEO is reported in Note 36 'Related party transactions' to the Consolidated Financial Statements.

Executive Management Team remuneration
The remuneration package of the other five members of the Executive Management Team was determined by the Compensation Committee and is shown in aggregate in Note 36 'Related party transactions' to the Consolidated Financial Statements.

Share ownership of Executive Management Team
Details of share options held and other interests in the share capital of the Company by the Executive Management Team are shown in Note 36 'Related party transactions' to the Consolidated Financial Statements.

Long-term incentive arrangements
The Group currently operates a single long-term incentive arrangement, the 2009 Long-term Incentive Plan ('2009 LTIP'), to reward and incentivise key management. There are also former schemes (as detailed in Note 36 'Related party transactions' to the Consolidated Financial Statements), which are now closed to new awards but which have not yet vested or lapsed. Full details of the 2009 LTIP are set out in Note 37 'Share-based payments' to the Consolidated Financial Statements.

Further details of the remuneration of Executive Management Team are detailed in Note 36 'Related party transactions' to the Consolidated Financial Statements.

Information and communications
Subsea 7 S.A.'s Board of Directors concurs with the principles of equal treatment of all shareholders and the Group is committed to reporting financial results and other information in an accurate and timely basis. The Group provides information to the market through quarterly and annual reports, investor and analyst presentations which are open to the media, and by making operational and financial information available on Subsea 7's website. Announcements are released through notification to the company disclosure systems of Oslo Børs and the Luxembourg Commission de Surveillance du Secteur Financier and simultaneously on the Subsea 7 website. As a listed company, the Company complies with the relevant regulations regarding disclosure. Information is only provided in English.

The Company complies in all material respects with Oslo Børs' Code of Practice on the Reporting of IR Information, which is available at http://www.oslobors.no/ob_eng/Oslo-Boers/Listing/Shares-equity-certificates-and-rights-to-shares/Code-of-Practice-for-reporting-IR-Information.

Take-overs
Subsea 7 S.A.'s Board of Directors endorses the principles concerning equal treatment of all shareholders. In the event of a take-over bid, it is obliged to act in accordance with the requirements of Luxembourg law and in accordance with the applicable principles for good corporate governance.

The Company has been notified of the following significant beneficial owners who own more than 5% of the Company's issued share capital:

	%[a]
Siem Industries Inc	19.8%
Folketrygdfondet	6.7%

a) Information is correct as at the date of the last notification.

In addition, Subsea 7 Investing (Bermuda) Ltd holds 5.0% of the issued share capital as treasury shares.

Audit Committee
The Audit Committee is responsible for ensuring that the Group has an independent and effective external and internal audit process. The Audit Committee supports the Board of Directors in the administration and exercise of its responsibility for supervisory oversight of financial reporting and internal control matters and

to maintain appropriate relationships with the external auditor. Each of the Audit Committee members meets the independence requirements under Luxembourg law.

The terms of reference of the Audit Committee, as set out in the Audit Committee Charter, satisfy the requirements of applicable law and are in accordance with the Articles of Incorporation.

The Chairman of the Audit Committee is Mr Westlie who is currently Chief Financial Officer (CFO) of A.P. Møller-Maersk, and was previously CFO of Telenor Group. The Board of Directors has determined that Mr Westlie is the Audit Committee financial expert and competent in accounting and audit practice with recent and relevant financial experience. The Audit Committee's Charter requires that the Committee shall consist of not less than three directors. The Audit Committee meets at least four times a year, and its meetings are attended by representatives of the external auditor and by the head of the Internal Audit function.

The Audit Committee

Committee members

Trond Westlie – Committee Chairman
Eystein Eriksrud
Dod Fraser

The Audit Committee's main responsibilities are:

1. Monitoring the financial reporting process.
2. Monitoring the effectiveness of the Company's and the Group's internal control, internal audit and, where applicable, risk management systems.
3. Monitoring the statutory audit of the Company's annual accounts and the Consolidated Financial Statements of the Group.
4. Reviewing the quarterly, half-yearly and annual financial statements of the Group before their approval by the Board of Directors.
5. Reviewing and monitoring the independence of the external auditor, and in particular with respect to the provision of additional services to the Company and the Group and making recommendations with respect to the selection and the appointment of the external auditor.
6. Reviewing the report from the external auditor on key matters arising from the Group statutory audit.
7. Dealing with complaints received directly or via management, including information received confidentially and anonymously, in relation to accounting, financial reporting, internal controls and external audit issues.
8. Reviewing the disclosure of transactions involving related parties.

The Committee's Charter is available on the Subsea 7 website: www.subsea7.com

Auditor

The external auditor meets the Audit Committee annually regarding the planning and preparation of the audit of the Group's Consolidated Financial Statements.

The Audit Committee members hold separate discussions with the external auditor during the year without the Executive Management Team being present. The scope, resources and level of fees proposed by the external auditor in relation to the Group's audit are approved by the Audit Committee.

The Audit Committee recognises that it is occasionally in the interests of the Group to engage its external auditor to undertake certain other non-audit assignments. Fees paid to the external auditor for audit and non-audit services are reported in the Company's annual accounts and the Consolidated Financial Statements of the Group which are, in turn, approved at the AGM. The Audit Committee also requests the external auditor to confirm annually in writing that the external auditor is independent.

Directors' Responsibility Statement

We confirm that, to the best of our knowledge, the Consolidated Financial Statements for the period from 1 January 2012 to 31 December 2012 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, the 2012 Annual Report and Consolidated Financial Statements include 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.

By Order of the Board of Directors of Subsea 7 S.A.

Kristian Siem
Chairman

13 March 2013

Jean Cahuzac
CEO and Director

13 March 2013

Managing risks and uncertainties

Effective management of risk and uncertainty is essential to the delivery of the Group's vision.

Risk Factors

The following is a description of the risks that may affect some or all of our activities and which may affect the value of an investment in our securities. If any of the events described below occurs, the Group's reputation, operations and/or financial performance and position could be materially adversely affected. Additional risks and uncertainties that the Group is unaware of or that it currently deems immaterial may in the future have a material adverse effect on the Group's reputation, operations and/or financial performance and position.

Market Risks

Demand for the Group's services depends on expenditure by participants in the oil and gas industry and particularly on capital expenditure budgets of the companies engaged in the exploration, appraisal, development and production of offshore oil and gas. Offshore oil and gas capital expenditures are influenced by many other factors beyond the Group's control, including:

- prices of oil and gas and anticipated changes in world oil and gas supply and demand
- discovery rate of new offshore oil and gas reserves
- economic feasibility of developing particular offshore oil and gas fields
- production from existing producing oil and gas fields
- political, economic or environmental conditions in areas where offshore oil and gas exploration and development may occur
- governmental regulations regarding environmental protection and the oil and gas industry generally, including policies regarding the exploration for, pricing and production and development of their oil and gas reserves
- ability of oil and gas companies to access or generate capital and the cost of such capital.

The Group faces competition for both contracts and resources. Contracts for the Group's services are generally awarded on a competitive bid basis, with price being the primary factor in determining contract award. Clients may also consider the availability and capability of equipment and the reputation and experience of the contractor in determining the award. Competition could result in pricing pressures, lower sales and reduced margins that would have an adverse effect on the operating results, financial performance and position of the Group.

The Group may experience constraints in its supply chain due to higher activity levels in the industry which could lead to increased competition for resources, such as raw materials, equipment and skilled workers. Such supply chain constraints or limited availability of resources could negatively affect the results of operations of the Group.

The Group depends on certain significant clients and long-term contracts. The loss of any one or more significant clients, or a substantial decrease in such client's demand, or a failure to replace significant long-term contracts on similar terms, could result in a material adverse effect on the financial performance of the Group.

Strategic Risks

Many of the Group's operations are performed in emerging markets which present risks including:

- economic and political instability
- increased risk of fraud and political corruption
- sanctions and embargoes that may be imposed by the international community requirements for local ownership of operations and requirements to use local suppliers or sub-contractors
- disruptions due to civil war, terrorist activities, piracy, labour unrest, election outcomes, shortage of commodities, power interruptions or inflation
- the imposition of adverse tax policies
- exchange controls and other restrictions by foreign governments.

Such events could cause lower revenues and/or cost overruns on projects. Additionally, these factors could cause assets that are needed elsewhere to be unavailable.

The Group's clients seek to develop oil and gas fields in increasingly deeper waters and more challenging offshore environments. Any failure by the Group to anticipate or to respond appropriately to changing technology, market demands and client requirements could adversely affect the Group's reputation, operations and financial performance and position.

Operational Risks

The Group's operations are exposed to physical, environmental and other risks inherent in the oil and gas business, including:

- equipment or mechanical failure
- adverse weather conditions
- claims resulting from delays and cost overruns exceeding contractual indemnity levels, possibly resulting in liquidated damage claims
- claims arising from wilful, negligent or unlawful activity by an employee or sub-contractor, not covered by insurance
- cancellation or disruption of chartering arrangements with third parties
- cancellation or delay in the delivery of the key project items
- cost overruns due to estimating errors or unexpected costs that may reduce contract profitability
- cancellation or delay of backlog orders
- retention and recruitment of skilled employees
- delays to the completion of new vessels.

Some of these risks are outside the control of the Group. The Group's mitigation efforts are focused on minimising the incidence and impact of these risks by planned maintenance, enforcing our standard contract terms and conditions, especially on larger or more technologically complex projects, comprehensive health and safety policies, ethical guidelines and by applying a standardised method of planning, estimating and working.

Reputational, Financial and Compliance Risks

The Group's reputation and its ability to do business may be impaired by inappropriate behaviour by any of its employees or agents. While the Group is committed to conducting business in a legal and ethical manner, there is a risk that its employees or agents may take actions that breach the law and could result in monetary penalties against the Group and could damage its reputation and, therefore, its ability to do business.

The Group is exposed to financial and compliance risks involving third parties, including:

- failure of a bank or depositing counterparty that could result in inadequate guarantee facilities being available
- failure of joint venture partners to fulfil their obligations
- prohibition or limitation on the Group's subsidiaries to be able to transfer or dividend funds to appropriate levels in the Group structure thus limiting the funds available in other parts of the business

- fluctuations in exchange rates between the US Dollar and the functional currency of the Territory in which the Group operates
- changes to legislation or the application of existing legislation in countries in which the Group operates that could increase future liabilities.

Individual period performance may also be significantly affected by the timing of contract completion, when the final outcome of a contract may be fully assessed. Until this stage, the Group employs the percentage-of-completion method of accounting, which relies on the ability to develop accurate and reliable estimates of future costs over the remaining life of the contract. Despite the time and effort devoted to these estimates, this method of accounting remains a highly judgemental area and changes to estimates or unexpected costs or recoveries may result in significant fluctuations in profitability.

The Board of Directors has oversight of the Group's risk management activities and internal control processes. Any system of internal controls can only provide reasonable and not absolute assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. It is essential that the Group has appropriate systems in place for the identification and management of risks, while ensuring that, within a given risk appetite, the business is able to optimise enterprise value.

Managing Risk

The Executive Management Team is responsible for monitoring and managing operating and enterprise risk (the term used to describe the combination of risk appetite, risk strategies, risk policies and authority levels) in pursuit of the Group's business objectives.

A wide range of strategies is adopted to mitigate these risks, including ensuring we have well-trained people and well-maintained vessels on each project, supported by our technical know-how and a strong health, safety and ethical culture. Internal controls, risk area reviews and regular audits support this process.

Commercial Assurance

Management of commercial risk is vital in ensuring the continued success of the business.

Marketing of our services is performed through our Territories and regional offices, with most of our work obtained through a competitive tendering process. When a target project is identified by our marketing teams, the decision to prepare and submit a competitive bid is taken by management in accordance with delegated authority limits. Cost estimates are prepared on the basis of a detailed standard costing analysis, and the selling price and contract terms are based on our commercial standards and market conditions.

Before the tender is submitted to a client, a formal review process is performed. Tenders are first reviewed at the Territory level where the technical, operational, legal and financial aspects of the proposal are considered in detail. Completion of the Territory review process requires the formal approval of the appropriate level of management. Dependent on the tender value, there is an escalating level of approval required, with the tenders having the highest value being approved by the Board of Directors.

Project Risk Management

A formal risk assessment is performed for each project for which we intend to submit a tender. The assessment consists of a legal risk assessment that compares the contractual terms and conditions of the proposed tender to our standard terms and conditions. The financial impact of any deviation from our standard terms and conditions is quantified wherever possible and a risk mitigation plan is proposed. In addition, an operational risk assessment is conducted that analyses factors such as the impact of weather, supplier delays, industrial action and other factors to quantify the potential financial impact of such events. In addition, the Group's Internal Audit periodically reviews tenders for compliance with the Group's policies and procedures.

Standardisation of approach

The implementation of standard tendering policies has resulted in the information contained in tender review documents being consistent across the organisation, allowing the relative risks and benefits of tendering for various projects to be assessed. As projects continue to increase in size and complexity, more tenders are reviewed by members of the Executive Management Team and greater emphasis is placed on adherence to the standard contractual terms and conditions. With the implementation of these policies, a significant amount of management time is devoted to the tendering process.

Project Controls

The Group assigns to every project a project management team. Every project is assessed regularly using the Project Monthly Status Report process. These reviews cover financial performance, cost management, project progress, risk management and sensitivity analysis. Detailed assessments of costs and revenues are estimated and reported upon, taking into account project performance, planning schedules, contract variations, claims, allowances and contingency analysis. Registers of risks are maintained and periodically reviewed.

Variation Orders

The Group's policy is not to undertake variations to projects without prior agreement of scope, schedule and price. However, from time to time, we perform work that results in claims and variation orders, which will be negotiated, subject to the appropriate level of approval, with the client during the ordinary course of the project, although settlement may follow the completion of the offshore activities.

Internal Controls

The Board of Directors is responsible for the oversight of the Group's system of internal controls and for reviewing its effectiveness. It provides reasonable but not absolute assurance against material misstatement or loss.

The Group's Internal Audit is responsible for the independent review of the Group's risk management and control environment. Its objective is to provide reliable, valued and timely assurance to the Board of Directors, the Audit Committee, the CEO and the Executive Management Team as to the effectiveness of controls in mitigating current and evolving risks and in so doing enhancing the controls environment within the Group.

In particular Internal Audit assists the Executive Management Team by performing independent appraisals of the effectiveness of the internal control environment and makes recommendations for improvement, and supports the Group's business management system. The Audit Committee reviews and approves Internal Audit's programme and resources, reviews and discusses major findings of audit reviews together with management responses and evaluates the effectiveness of the internal audit function.

External advisers have, from time to time, provided advice to the Board on issues related to corporate governance.

AFRICA, GULF OF MEXICO & MEDITERRANEAN

Olivier Carré, Senior Vice President Africa, Gulf of Mexico & Mediterranean

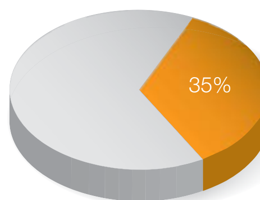
2012 Commentary

- Contracts awarded in Angola and Congo for Chevron's Lianzi Project, and in Nigeria for Exxon's Trunk Line installation
- Successful project execution with significant progress made on Block 31 PSVM for BP offshore Angola, and completion of EGP3B operations for Chevron in Nigeria
- On-time installation of the Satellite Field platforms for Exxon in Nigeria
- Successful commissioning and on-schedule mobilisation of *Seven Borealis* for Total's CLOV Project, offshore Angola
- Conversion and deployment of new-build *Seven Inagha* jack-up vessel in Nigeria
- Award of Pemex's L60 Project to our Mexican joint venture which will utilise *Seven Borealis*.

For more information, see Territory Financial Highlights on page 39.

Revenue

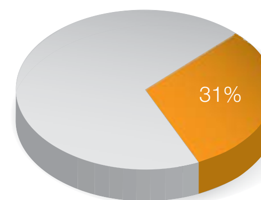
$2,182m
(2011: $2,543m)



Territory revenue as a % of total Group revenue for the year ending December 2012.

Backlog

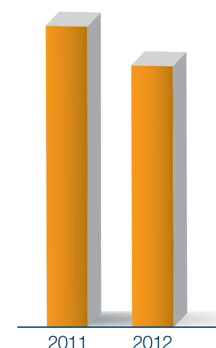
$2,826m
(2011: $2,866m)



Territory backlog as a % of total Group backlog as at December 2012.

Net Operating Income

$428m
(2011: $490m)



Market overview and outlook

We expanded our West African backlog during 2012, despite some delays in project awards. This expansion included a contract for the modification and installation of topsides on the Lianzi field, offshore Angola and Congo. Topside contracts of this type are an area in which we expect to see growth.

In Nigeria, Hook-up activity was high during 2012. New campaigns have started to replace ageing pipelines and subsea infrastructure, reinforcing activity in the Conventional segment of the subsea market. Nigeria has significant deepwater reserves, but issues surrounding the Petroleum Industry Bill are resulting in further delays to field development.

As Angola pursues its growth target of three million barrels per day production by 2022, activity remained high throughout 2012 and is expected to continue at a similar level during 2013, when major projects like Total's Block 32, Kaombo, are due to be awarded. Block 32 is predicted to be the largest SURF project to date worldwide.

High levels of exploration were sustained offshore Angola, especially in pre-salt areas, and are expected to translate into SURF projects in the years to come. Activity in the Conventional segment of Angola is also increasing with the development of the shallow water Block 0.

Elsewhere in West Africa, the medium-term outlook is also expected to be positive as other deepwater prospects have been confirmed offshore Ghana, Ivory Coast, Liberia and Sierra Leone, with plans for new exploration in Gabon and other countries.

Another key development has been the confirmation of discoveries in new regions in Africa.

In East Africa, large oil and gas discoveries have been announced which are expected to lead to an increase in exploration and production activity in the next five years. The first projects are anticipated to be with Anadarko and ENI in Mozambique.

In the Mediterranean region, outlook for the eastern Mediterranean area is positive with an increasing number of deepwater gas reserves being confirmed. The scale and complexity of projects such as BP's West Nile Delta are ideally suited to our capabilities.

The US Gulf of Mexico continued its recovery, and in 2012 experienced an increase in activity. Deepwater and Life-of-Field prospects are coming to market, and client capital expenditure is expected to increase further.

Activity in this region will be complemented by the growth of the Mexican market as Pemex expands its offshore exploration and development efforts into deeper water.

In the Life-of-Field segment across the Territory, operators are beginning to adopt an integrated, long-term contract approach which will require specialist contractors such as Subsea 7.

Our long track record in the Territory, combined with extensive local capabilities in all the countries in which we operate, position us well to capture future growth opportunities.

Block 31 PSVM: building our presence in Angola

This long-term deepwater SURF programme offshore Angola for BP has involved extensive deployment of one of our global enablers, the pipelay and construction vessel *Seven Seas,* in water depths up to 2,030m approximately 400km north west of Luanda.

Seven Seas, which was delivered to us in 2008, was custom-designed for project versatility on this scale. For this project, the vessel deployed a wide range of specialist installation equipment including lay systems, ROVs, deepwater cranes, winches, carousels and reel drives.

The extensive work scope, which covered 700 days over a two-year period, included 36 umbilicals, 37 flying leads, 14 manifolds, 54 rigid spools, 27 flexible flowlines/jumpers and nine flexible risers.

A substantial number of Angolans were recruited for the installation works for this project, and they underwent extensive training and development programmes, including offshore training for marine and operational personnel.

ASIA PACIFIC & MIDDLE EAST

"Our local presence positions us well for future growth"

Dick Martin, Senior Vice President Asia Pacific & Middle East

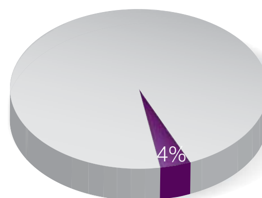
2012 Commentary

- Contract awards in Australia for Apache's Julimar, BHP Stickle 8 Developments and Santos's Fletcher Finucane Project
- Successful project execution in India of ONGC's G1 & GS-15 Fields Development Project and in Malaysia of Petronas Carigali's Kumang Cluster Development, both in deep water
- Mobilisation and load-out of 200km of umbilicals for Gorgon Project in Australia for Chevron
- SapuraAcergy joint venture completed COOEC's LiuHua 4-1 project in China, PTTEP's Montara development in Australia and BP TNK's LanDo Project in Vietnam.

For more information, see Territory Financial Highlights on page 39.

Revenue

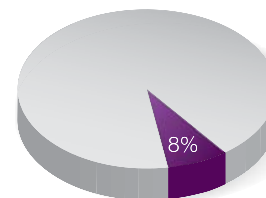
$278m
(2011: $181m)



Territory revenue as a % of total Group revenue for the year ending December 2012.

Backlog

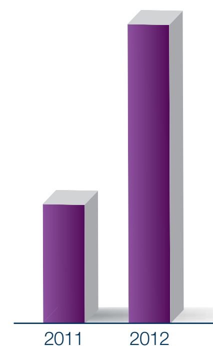
$718m
(2011: $630m)



Territory backlog as a % of total Group backlog as at December 2012.

Net Operating Income

$46m
(2011: $18m)



Market overview and outlook

The Territory operates in a highly-competitive market.

However, the emergence of larger deepwater SURF developments presents opportunities for companies with capability for high-end project delivery in this specialist field.

Our long-term presence, track record and association with our Malaysian partners in the SapuraAcergy joint venture position us well to capture these opportunities.

The growing demand for energy in the Territory is driving our clients to increase investment in the development of deepwater and complex fields.

New projects are expected to be sanctioned in the near term in areas such as the east coast of India, China, Indonesia and Malaysia, as well as the north-west shelf of Australia. The main thrust of our business development is focused on these growing deepwater SURF markets.

Many of these projects will require new technologies and vessels with high technical capabilities.

In 2012, we successfully introduced our J-lay technology for the first time in Asia on Shell's Gumusut-Kakap Project, offshore Malaysia, and we also executed the first diverless construction project for Petronas Carigali, offshore Malaysia.

We foresee more projects which will require similar technologies for their safe and efficient offshore delivery.

The Territory is large and diverse with distinctive business cultures, different employment rules and regulatory frameworks.

Subsea 7 has demonstrated familiarity with these diverse cultures, built on a well-established local presence and a clear understanding of local commercial and strategic drivers.

In 2012 we successfully completed projects in countries as diverse as China, Vietnam, Malaysia, India and Australia.

Life-of-Field services is a developing market, particularly offshore Australia, where our innovative technologies can be combined with strong data management systems to deliver the high-end service required by our clients.

We maintain a small but versatile marine asset base in the Territory, and are able to leverage our global fleet to enhance our locally deployed capability.

Combining this vessel flexibility with our project management, engineering and technical expertise gives us a differentiated position to meet the demands of this attractive market.

G1 & GS-15 Fields offshore India: a deepwater "first"

2012 saw the successful completion of our Campaign 1 work scope on the installation of subsea production facilities for the first integrated deepwater development project undertaken by ONGC offshore India.

The G1 Field is located offshore India in the Bay of Bengal, 25km off the Amalapuram coast, in water depths ranging from 205m to 440m, while the GS-15 Field is in very shallow water near shore. The G1 subsea production system consists initially of four production wells.

Our work scope involved the transportation and installation of subsea structures, flexible flowlines, umbilicals and flying leads, as well as pre-commissioning and assistance to commissioning.

The project management team was based in our Singapore office and supported by our global Vessel Support Team.

BRAZIL

Victor Bomfim, Senior Vice President Brazil

2012 Commentary

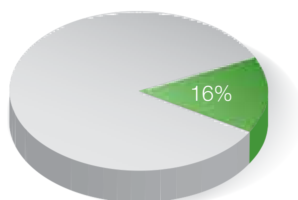
- Ongoing negotiations with Petrobras for extension of several long-term day-rate PLSV contracts
- Successful completion of GSNC Shallow Project and the long-term charter contract of DSV *Harrier* for Petrobras
- Project mobilisation for UOTE Project for Petrobras
- Achievement of major milestones on the Guará-Lula pre-salt Project for Petrobras in line with the client's revised schedule; we have however increased the estimated full-life project loss by approximately $52 million
- Successful mobilisation by i-Tech of 18 ROVs for the Superbid III Project for Petrobras
- New-build PLSV *Seven Waves* on schedule for 2014 delivery.

For more information, see Territory Financial Highlights on page 39.

Revenue

$987m

(2011: $687m)

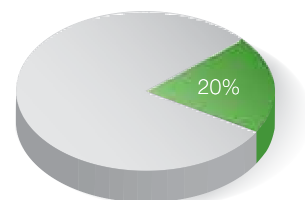


Territory revenue as a % of total Group revenue for the year ending December 2012.

Backlog

$1,824m

(2011: $2,584m)

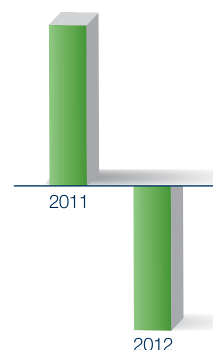


Territory backlog as a % of total Group backlog as at December 2012.

Net Operating (Loss)/Income

$(26)m

(2011: $23m net operating profit)



Market overview and outlook

Brazil has been host to some of the world's largest oil and gas discoveries in the last decade.

However, local content constraints and a complex regulatory and fiscal environment create potential risks for service companies operating in the Brazilian oil and gas business. These challenges have to be taken into account when bidding for new contracts.

Despite these hurdles, Brazil is still regarded as an important destination for international investment in the oil and gas sector.

ANP, Brazil's National Petroleum Agency, has announced that 2013 will see the 11th Bidding Round for the auction of exploration licences for both new pre-salt and post-salt blocks. This should create additional opportunities for the industry.

Petrobras, the national oil company, plays a pre-eminent role in the country's oil and gas sector. The company estimates that it accounts for 85%-90% of the Brazilian subsea market, and has made over 60% of worldwide deepwater discoveries during the last five years.

International oil companies including Shell, Statoil, BG, Chevron, Total and Repsol continue to have an active presence in the country.

We foresee growth opportunities in the PLSV business where we have already demonstrated our capacity to successfully manage long-term day-rate contracts.

In 2011 we were awarded a $500 million long-term charter contract for the new-build vessel *Seven Waves* which will join the fleet in 2014.

We expect that Petrobras will require more vessels to fulfil its development plans and, as a consequence, opportunities will exist for Subsea 7 to renew contracts for some existing PLSVs. We will also consider building new vessels in response to being awarded firm long-term contracts by Petrobras at rates which will generate an appropriate return on investment.

We also expect that the pre-salt and other deepwater Brazilian fields will be developed using differing riser technologies, including both Flexible and Rigid pipes solutions.

Based on our experience in the country and long-established operational presence, we believe that we will be able to generate sustainable profits by focusing on projects with the right risk and reward balance between Subsea 7 and our clients.

Guará-Lula NE: pioneering deepwater technology

This deepwater pre-salt project by Petrobras is in water depths of beyond 2,100m, 300km from shore, and is the largest EPIC SURF contract awarded in Brazil to date.

The project scope includes the engineering, procurement, installation and pre-commissioning of four decoupled riser systems, and features a pioneering Buoyancy Supported Riser ('BSR') concept developed by us for this project.

The BSR system is based on the use of large sub-surface buoys to support multiple Steel Catenary Risers and absorb the dynamics from the FPSO.

Another notable technical milestone on the project comprises the world's first use of BuBi® Mechanically Lined Pipe installed by the reel-lay method.

Fabrication of the rigid pipelines is carried out at our pipeline fabrication spoolbase at Ubú, and offshore operations, due to commence in 2013, involve *Seven Oceans*, *Seven Polaris* and *Skandi Neptune*.

NORTH SEA & CANADA

Øyvind Mikaelsen, Senior Vice President North Sea & Canada

2012 Commentary

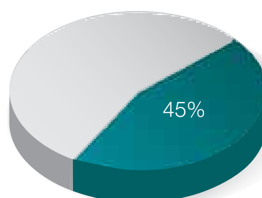
- Record backlog of $3.7 billion, with approximately $2.13 billion in new contracts awarded in 2012
- A number of large EPIC SURF contracts awarded, including BG's Knarr Project in Norway, Clair Ridge Project for BP in the UK and Suncor's Terra Nova Field in Canada
- Largest EPIC SURF contract awarded to date in the North Sea, Total's Martin Linge Project in Norway
- Extension of major long-term LOF contracts for Shell's North Sea USC and BP's West of Shetland Projects
- Successfully completed more than 40 projects in the Territory, including over 5,000 vessel days.

For more information, see Territory Financial Highlights on page 39.

Revenue

$2,838m

(2011: $2,054m)

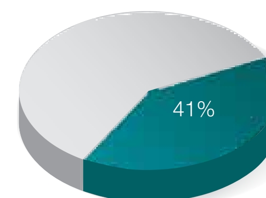


Territory revenue as a % of total Group revenue for the year ending December 2012.

Backlog

$3,718m

(2011: $2,458m)

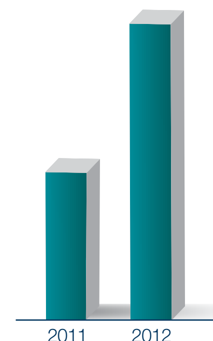


Territory backlog as a % of total Group backlog as at December 2012.

Net Operating Income

$364m

(2011: $179m)



Market overview and outlook

In the North Sea and Canada Territory we are able to deploy technology which helps to put us in a strong position.

This includes pipeline Bundles, Mechanically Lined Pipe and remote intervention technology. Combined with the most versatile fleet in the Territory, this ensures that we are well positioned for the future.

In 2012 there was a consistently high level of tendering which led to us being awarded a number of major SURF and Life-of-Field ('LOF') contracts throughout the Territory. This enabled us to achieve an improvement in pricing and secure a record backlog for 2013 and beyond.

The backlog includes a number of significant projects which demonstrate our ability to successfully develop and apply new technologies. These include the Svalin Project for Statoil, the first reel-lay Pipe-in-Pipe project for the company and several technically advanced EPIC pipeline Bundle projects.

Our proven technology capability is augmented by our track record in the execution of large SURF projects, supported by our large-scale engineering and project management expertise and active collaboration across our Territories.

Due to investment in new technology, the North Sea continues to offer long-term growth opportunities.

Efforts to secure and exploit complex new discoveries have led to technologies such as subsea processing being developed for the Norwegian continental shelf and remote intervention, autonomous inspection and integrity management technology aimed at extending the life of existing fields and infrastructure.

As in other Territories, there is a market trend towards larger, more complex projects and an increasing preference for the EPIC contracting model. With our capability and established track record we are well positioned to capitalise on this trend.

The market across the Territory is predicted to remain active for the medium to long term. New discoveries in mature sectors of the North Sea and frontier areas in the Barents Sea, West of Shetland and offshore Canada represent good long-term opportunities.

LOF operations will remain an important and growing segment of the North Sea and Canadian markets. Although much existing oil and gas infrastructure is nearing the end of its original design life, it is now being required to support new satellite developments.

Combined with the increase in the number of high-technology subsea installations, this growth will require new technologies to support future LOF service delivery. With a long-established LOF position in the Territory, we are well placed to offer such services.

Strategically, our strong presence in the Territory and our technology focus put us in a good position to take advantage of the long-term development of Arctic reserves.

Skuld: high-technology innovation

During 2012 we completed the Skuld Field Development project for Statoil, a large and technically complex three-template tieback to the Norne FPSO, and the flagship of Statoil's current fast-track project portfolio.

The work scope comprised the installation of rigid pipelines, umbilicals and flexible flowline jumpers.

One of the key achievements was the fabrication and installation of the 25.7 km dual diameter clad pipeline, which included Direct Electrical Heating. These were both Subsea 7 "firsts" for Statoil, and confirmed our position as a leading provider of high-technology solutions in the Territory.

The project completed around 450 vessel days, deploying *Seven Pacific*, *Skandi Acergy* and *Seven Oceans*, and involved 80 days of fabrication at our Vigra spoolbase.

Significant growth with strong financial performance

2012 was a year of significant growth combined with strong financial performance. The Group experienced high levels of vessel utilisation and project activity across all Territories with an overall improvement in net operating income. The Group ended the year with record backlog of $9.1 billion. *Seven Borealis* joined the fleet and the Group continued with its capital expenditure programme focused on fleet renewal and enlargement.

The post-merger integration was successfully completed and the Group disposed of its interest in NKT Flexibles.

A dividend of $199 million was paid and a $200 million share buy-back programme was completed in July 2012. The Group also completed the spin-off of its Veripos division during July 2012, with the shares of Veripos Inc. being distributed as a dividend-in-kind.

The Group continued to strengthen its liquidity with the issuance of a $700 million convertible bond and the Group held cash and cash equivalents of $1.3 billion at 31 December 2012.

Financial highlights

For the period ended (in $ millions, except Adjusted EBITDA margin, share and per share data)	**2012 31 Dec**	2011 31 Dec[a]
Revenue	**6,297**	5,477
Adjusted EBITDA[b]	**1,139**	1,003
Adjusted EBITDA margin[b]	**18%**	18%
Net operating income	**808**	641
Gain on disposal of NKT Flexibles	**244**	–
Net income	**847**	451
Backlog	**9,086**	8,538
Cash and cash equivalents	**1,288**	803
Borrowings	**1,535**	893
Earnings per share – in $ per share		
Diluted	**2.23**	1.21
Adjusted diluted[b]	**1.59**	1.21
Weighted average number of common shares	**380.2m**	366.3m

(a) Revenue, Adjusted EBITDA, Adjusted EBITDA margin, net operating income, net income, diluted earnings per share and adjusted diluted earnings per share for 2011 include the Group's results for the 13 months ended 31 December 2011.

(b) For explanations and a reconciliation of Adjusted EBITDA and Adjusted EBITDA margin see the additional information on page 103. For an explanation and a reconciliation of adjusted diluted earnings per share see Note 12 'Earnings per share'. Adjusted earnings per share excludes the gain on disposal of NKT Flexibles.

Revenue
Revenue of $6.3 billion, increased $820 million or 15% compared to 2011, driven mainly by higher levels of activity in NSC and further progression of the Guará-Lula NE project in Brazil.

Adjusted EBITDA
Adjusted EBITDA of $1.1 billion, an increase of $136 million or 14% compared to 2011. The Adjusted EBITDA margin of 18% was broadly consistent with 2011.

Net operating income
Net operating income increased by $168 million to $808 million largely due to:

- an increase in gross profit of $149 million compared to 2011, as a result of higher levels of project and offshore activity. The gross profit margin of 17.4% was consistent with 2011 (17.3%) as improved margins in NSC were largely offset by a further loss recognised on Guará-Lula NE project in Brazil. Vessel utilisation levels remained high at 86% (2011: 80%).
- a decrease in administrative expenses of $37 million to $373 million (2011: $410 million). The reduction in expenses was mainly due to lower integration and restructuring costs.
- a decrease in the Group's share of results of associates and joint ventures to $86 million (2011: $104 million). The reduction was primarily due to the disposal of the Group's interest in NKT Flexibles, partially offset by improved contributions from Seaway Heavy Lifting and SapuraAcergy.

Net income
Net income of $847 million increased by $396 million or 88% compared to 2011 primarily due to:

- increased underlying profitability of the Group;
- a $244 million gain on disposal of the Group's interest in NKT Flexibles; and
- other gains and losses totalling $40 million (2011: $7 million) primarily representing net foreign currency exchange gains.

The effective tax rate for the period, excluding the impact of the tax-exempt gain on sale of NKT Flexibles, was 27% (2011: 28%).

Backlog
The Group had a record backlog of $9.1 billion at 31 December 2012, an increase of $548 million compared to 31 December 2011, driven largely by contract awards in the NSC Territory.

Cash and cash equivalents

Cash and cash equivalents increased by $485 million to $1.3 billion largely reflecting cash generated by operating activities of $515 million and the issuance of $700 million of convertible notes at a coupon of 1%, partly reduced by the dividend paid of $199m and the execution of the share buy-back programme of $200 million.

Earnings per share

Diluted earnings per share was $2.23. After excluding the gain on disposal of NKT Flexibles, the adjusted earnings per share was $1.59 compared to $1.21 in 2011, an increase of 31%.

Borrowings

Borrowings increased by $642 million to $1.5 billion during 2012, mainly as a result of the placement of $700 million of convertible notes in October 2012.

Allocation of net income

The net income of $847 million was transferred to equity with $830 million (2011: $424 million) attributed to equity shareholders of the parent and the balance of $17 million attributed to non-controlling interests (2011: $27 million).

Territory highlights

For the year ended 31 December 2012

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	**2,182**	**278**	**987**	**2,838**	**12**	**6,297**
Net operating income/(loss) from operations	**428**	**46**	**(26)**	**364**	**(4)**	**808**

For the period ended 31 December 2011[(a)]

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue	2,543	181	687	2,054	12	5,477
Net operating income/(loss) from operations	490	18	23	179	(69)	641

(a) The comparative period ('2011') is the thirteen-month period from 1 December 2010 to 31 December 2011.

Africa, Gulf of Mexico & Mediterranean (AFGOM)

Revenue was $2.2 billion a decrease of $0.4 billion or 14% on 2011, due mainly to the timing of the offshore execution of major projects. There was significant progress on Block 31 PSVM and CLOV, offshore Angola. Projects substantially completed during the year included OSO Re, MPN Satellite Field Development and EGP3B, all offshore Nigeria. The fabrication activities of Sonamet in Angola continued to make a significant contribution to the Group. Net operating income at $428 million was $62 million or 13% lower than 2011, however the associated margin of 20% was improved slightly compared to 19% in 2011.

Asia Pacific & Middle East (APME)

Revenue was $278 million an increase of $97 million or 54% primarily driven by continuing activities on ONGC G1, offshore India and Gorgon, offshore Australia as well as the completion of Montara, offshore Australia, and Lihua-4, offshore China. The SapuraAcergy joint venture contributed $32 million to net operating income for the period (2011: $27 million). Net operating income was $46 million (2011: $18 million) with the increase mainly due to increased activity levels.

Brazil (BRAZIL)

Revenue was $987 million an increase of $300 million or 44% reflecting procurement, engineering and project management activities on the Guará-Lula NE and UOTE projects. The GSNC Shallow project was completed in 2012. The seven vessels on long-term service agreements to Petrobras continued to operate at high levels of utilisation. Net operating loss was $26 million (2011: net operating income $23 million). The operating loss in 2012 was primarily driven by an approximately $52 million increase in full-life project losses on Guará-Lula NE to reflect a commercial dispute with the client, and revised contingencies related to the timing of equipment delivery from key subsea suppliers.

North Sea and Canada (NSC)

Revenue was $2.8 billion, an increase of $0.8 billion or 38% largely due to high levels of activity across the Territory. Projects such as Ormen Lange, Skuld and Skarv, offshore Norway and Terra Nova, offshore Canada progressed well. Operating activities continued on Laggan Tormore, West Franklin and Alta projects, offshore UK. The Siri Caisson project continued offshore Denmark. Life-of-Field operations under the Shell, BP, Statoil and Total Frame Agreements performed well during 2012. Net operating income margin increased to 12.8% from 8.7% in 2011 driven by high levels of vessel utilisation and the completion of a number of projects which had been awarded at low margins in previous years.

Corporate (CORP)

Revenue for the period was $12 million (2011: $12 million). The net operating loss was $4 million reduced from $69 million in 2011, largely due to lower integration and restructuring costs. Seaway Heavy Lifting contributed $51 million (2011: $40 million) as a result of high renewables activity. These improvements were partly offset by the reduced contribution from NKT Flexibles due to the disposal of the Group's interest in the early part of 2012.

Backlog

The Group had a record backlog of $9.1 billion at 31 December 2012, an increase of $548 million or 6% compared to 31 December 2011. The increase was mainly attributable to major contract awards in NSC in the fourth quarter.

$6.3 billion of the backlog at 31 December 2012 related to SURF activity, $1.4 billion to Life-of-Field, $0.8 billion to Conventional and Hook-up and $0.6 billion to i-Tech. $4.6 billion of this backlog is expected to be executed in 2013, $2.5 billion in 2014 and $2.0 billion in 2015 and thereafter. Backlog excludes associates and joint ventures.

Balance sheet

Goodwill

Goodwill remained largely unchanged at $2.6 billion.

Property, plant and equipment

Additions to property, plant and equipment were $679 million (2011: $669 million).

During the fourth quarter of 2012, *Seven Borealis,* a multi-purpose heavy construction and pipe-laying vessel, commenced work following the completion of sea trials and commissioning. *Seven Inagha*, a jack-up accommodation and crane barge, commenced conventional work on fixed platforms, offshore Nigeria, following her arrival in Q2 2012.

Construction commenced of *Seven Waves*, a new-build deepwater flexible pipelay vessel which is expected to be delivered in 2014. In November 2012, the Group signed a contract to build a new dive support vessel which is expected to be delivered in 2015.

Other capital expenditure related to ROVs for the i-Tech Superbid III Project for Petrobras, offices in Norway and Brazil and dry-docking costs for the existing fleet.

Disposals recognised during the year mainly comprise the derecognition of fully depreciated dry-docking costs.

Interests in associates and joint ventures

During the year, the Group disposed of its share of NKT Flexibles for net cash proceeds of $344 million with a gain on disposal of $244 million.

In 2012, the Group acquired a 50% interest in two vessel owning entities. The Normand Oceanic joint venture owns *Normand Oceanic* and the Eidesvik Seven joint venture took delivery of the new-build IMR vessel, *Seven Viking,* in January 2013. These vessels are currently chartered to the Group.

Assets held for sale

The Group's investments in Sonamet and Sonacergy continued to be classified as assets held for sale. The partial disposal of the Group's interests in Sonamet and Sonacergy is conditional upon the completion of certain conditions precedent, none of which are under the control of the Group. There is no indication that the sale will not proceed as anticipated and the Group expects completion during 2013 at which time the businesses will be deconsolidated from the Group's Consolidated Financial Statements and their future results will be reported as associates in 'Share of results of associates and joint ventures'. The Group believes continued disclosure as assets held for sale is appropriate.

In addition, at 31 December 2012, the vessels *Acergy Harrier, Acergy Legend* and *Acergy Orion* were classified as assets held for sale.

Borrowings

On 27 September 2012, Subsea 7 announced the issuance and successful placement of convertible notes with an aggregate principal amount of $700 million maturing in October 2017 (the '2017 Notes'). The proceeds of the issue will be used to finance the Group's growth and for general corporate purposes.

The 2017 Notes have an annual coupon of 1.0% payable semi-annually in arrears, and an initial conversion price of $30.10 representing a conversion premium of 30% above the reference price of $23.15.

Facilities

Subsequent to the placement of the 2017 Notes, the Group cancelled $400 million of the outstanding $500 million sub-limit available for cash drawings under its multi-currency revolving credit and guarantee facility.

Changes in share capital

In 2012 the Group repurchased 8,567,073 shares in its $200 million buy-back programme. A total of 509,986 share options were exercised (2011: 663,375), generating proceeds of $7.2 million (2011: $6.7 million). The share options exercised during 2012 were satisfied by delivering treasury shares. A further 957,957 treasury shares were used to satisfy share-based awards which vested during the period (2011: 296,328). No new common shares were issued.

Shareholders

Earnings per share for the period was $2.49 (diluted: $2.23) compared to earnings per share of $1.31 (diluted: $1.21) in 2011. Adjusted diluted earnings per share for the year, which excludes the gain on disposal of the Group's interest in NKT Flexibles, was $1.59.

According to VPS, the Company's 20 largest shareholders, by VPS account, at 1 March 2013 were as follows:

	%
Siem Industries Inc.	12.8
Siem Industries Inc.	7.0
Folketrygdfondet	6.7
Subsea 7 Investing (Bermuda) Ltd	5.0
The Northern Trust Company Sub	4.4
Deutsche Bank Trust Co. Americas	3.5
Morgan Stanley & Co Internat. Plc	3.3
State Street Bank And Trust Co.	2.4
JP Morgan Chase Bank	2.3
Clearstream Banking S.A.	2.2
JP Morgan Chase Bank	1.5
JP Morgan Chase Bank	1.4
The Bank Of New York Mellon	1.3
State Street Bank And Trust Co.	1.2
JP Morgan Chase Bank	1.2
Varma Mutual Pension Insurance	0.9
The Northern Trust Co.	0.8
State Street Bank And Trust Co.	0.8
The Bank Of New York Mellon	0.8
MP Pensjon Pk	0.7

Subsea 7 S.A. has been notified of the following significant beneficial owners who own more than 5% of the Company's issued share capital:

	%[a]
Siem Industries Inc.	19.8
Folketrygdfondet	6.7

(a) Information is correct as at the date of the last notification.

In addition, Subsea 7 Investing (Bermuda) Ltd holds 5.0% of the issued share capital as treasury shares.

Cash and cash equivalents

Movements in cash and cash equivalents balances are summarised as follows:

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec
Cash and cash equivalents at the beginning of the period	**803**	484
Net cash generated from operating activities	**515**	580
Net cash used in investing activities	**(353)**	(125)
Net cash generated from/(used in) financing activities	**258**	(94)
Effect of exchange rate changes on cash and cash equivalents	**(13)**	(4)
Movement in cash balances classified as assets held for sale	**25**	12
Movement in restricted cash balances	**53**	(50)
Cash and cash equivalents at the end of the period	**1,288**	803

Net cash generated from operating activities was $515 million compared to $580 million in 2011. This reflects improved operating results net of non-cash items of $1.1 billion partially offset by an increase in operating assets and liabilities of $356 million and income taxes paid of $216 million.

Investing activities consumed $353 million in 2012 compared with $125 million in 2011. The 2012 cash flow was mainly attributable to capital expenditure of $713 million partially offset by net cash flows of $344 million on the sale of the Group's share in NKT Flexibles.

Cash generated from financing activities in 2012 mainly related to the $700 million placement of the 2017 Notes partially offset by the $200 million share buy-back and the $199 million cash dividends paid.

Liquidity

As at 31 December 2012, the Group had sufficient liquid resources to meet operating requirements for the next twelve months. The Group had unutilised committed credit and guarantee facilities of $368 million, of which $117 million was available for cash drawings. The Group continues to monitor its future business opportunities and actively reviews credit and guarantee facilities and its long-term funding requirements.

Cash management constraints

The Group operates within a liquidity risk management framework which governs its management of short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by ensuring there are sufficient cash, banking and borrowing facilities. This is achieved by regularly monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities where appropriate.

The Group's cash operations are managed and controlled by its treasury department. Its cash surpluses and requirements are identified using consolidated cash flow forecasts. It is not always possible to freely transfer funds across international borders. For example, approval from the Central Bank of Brazil is required to remit funds from Brazil. Access to the $26 million of cash that is held by Sonamet is also constrained as it requires agreement between the Group and the other shareholders, as well as approval from the National Bank of Angola.

Covenant compliance

The Group's credit facilities contain various financial covenants including, but not limited to, a minimum level of tangible net worth, a maximum level of net debt to earnings before interest, taxes, depreciation and amortisation, a maximum level of total financial debt to tangible net worth, a minimum level of cash and cash equivalents and an interest cover covenant. During the period all covenants were met. The Group expects that it will be able to comply with all financial covenants during 2013.

Borrowings

The $500 million 2013 Notes mature in October 2013. The share price on 1 March 2013, exceeded the conversion price of $21.54 on that date. In the event that the notes do not convert but are redeemed for cash, the Group believes that it has access to sufficient sources of funding to meet this obligation.

Going concern

The Consolidated Financial Statements have been prepared under the assumption of going concern. This assumption is based on the level of cash and cash equivalents at the year end, the credit facilities in place, the forecast cash flows for the Group and the backlog position at 31 December 2012.

Outlook

Levels of tendering remain strong and the Group remains positive about the medium and long-term market prospects. As previously highlighted, delays in project awards and supply chain bottlenecks will temper the rate of progress in 2013. Nevertheless, the Group expects both revenue and Adjusted EBITDA to show some progress although higher depreciation, finance costs and effective tax rate will negatively impact earnings per share.

West Africa will move through a period of lower offshore activity in 2013 as operations on SURF contracts awarded in the second half of 2012 and early 2013 are projected to start in 2014 and beyond. Tendering activity is increasing in the Gulf of Mexico where client activity is improving. In Mexico, the Group has recently won its first contract, which will require the deployment of *Seven Borealis*.

In the North and Norwegian Seas tendering levels remain strong. However, much of our backlog was awarded late in 2012 and offshore activity for recent awards such as the Martin Linge contract, will commence in 2014. Results for the first quarter 2013 are expected to be impacted by lower vessel utilisation due to planned vessel maintenance and dry-docking, this compares to unusually high utilisation in the prior year period as clients sought to progress projects in spite of the risk of bad weather.

In Brazil, Petrobras' demand for flexible pipelay vessels ('PLSVs') remains strong. The Group is in discussion for the renewal of four of its vessels as their contracts are due to complete in 2013. In addition the Group participated in the recently announced Petrobras tender for new-build PLSVs and market award is expected later this year. The Guará-Lula NE project timeline remains consistent with the revised schedule as disclosed in the fourth quarter 2011. The Group has however increased the estimated full-life project loss by approximately $52 million, in the fourth quarter 2012, to reflect a recent commercial dispute with the client and revised contingencies related to the timing of equipment delivery from key subsea suppliers. Results in the first quarter 2013 will be impacted by planned dry-docking.

In Asia Pacific, tendering levels are slowly improving and the Group expects projects to come to market award during 2013, with associated offshore activity in 2014 and beyond.

In this growing worldwide market, the key challenges for the industry continue to be the availability of qualified and experienced personnel and the need to manage an increasingly tight supply chain and assure reliability in complex project delivery. The Group remains focused on addressing these challenges and on maintaining a strong emphasis on risk management and project management processes. Our engineering and project management capabilities, the size of our fleet and our financial strength, position Subsea 7 well for long-term profitable growth.

CONSOLIDATED FINANCIAL STATEMENTS CONTENTS

subsea 7

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REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

To the shareholders of Subsea 7 S.A.
412F, route d'Esch
L-2086 Luxembourg

Report on the Consolidated Financial Statements

Following our appointment by the General Meeting of the Shareholders dated 22 June 2012, we have audited the accompanying Consolidated Financial Statements of Subsea 7 S.A., which comprise the Consolidated Balance Sheet as at 31 December 2012, and the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the réviseur d'entreprises agréé's judgement including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of Subsea 7 S.A. as of 31 December 2012, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The Consolidated Directors' Report, which is the responsibility of the Board of Directors, is consistent with the Consolidated Financial Statements and includes the information required by the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended with respect to the corporate governance statement.

For Deloitte Audit
société à responsabilité limitée
Cabinet de révision agréé

Eddy Termaten, Réviseur d'entreprises agréé
Partner

13 March 2013

560, rue de Neudorf,
L – 2220 Luxembourg

CONSOLIDATED INCOME STATEMENT

For the period ended

subsea 7

(in $ millions, except per share data)	Notes	**Twelve Months Ended 2012 31 Dec**	Thirteen Months Ended 2011 31 Dec
Revenue	5	**6,296.6**	5,476.5
Operating expenses	7	**(5,201.6)**	(4,530.1)
Gross profit		**1,095.0**	946.4
Administrative expenses	7	**(373.1)**	(409.6)
Share of net income of associates and joint ventures	17	**86.3**	103.7
Net operating income		**808.2**	640.5
Finance income	9	**15.8**	20.0
Gain on disposal of subsidiary	41	**243.6**	–
Gain on distribution	11	**5.6**	–
Other gains and losses	8	**40.4**	6.9
Finance costs	9	**(44.8)**	(40.4)
Income before taxes		**1,068.8**	627.0
Taxation	10	**(221.6)**	(176.3)
Net income		**847.2**	450.7
Net income attributable to:			
Shareholders of the parent company		**830.4**	423.7
Non-controlling interests	27	**16.8**	27.0
		847.2	450.7

Earnings per share	Notes	**$ per share**	$ per share
Basic	12	**2.49**	1.31
Diluted	12	**2.23**	1.21
Adjusted diluted[(a)]	12	**1.59**	1.21

(a) For explanation and a reconciliation of adjusted earnings per share please refer to Note 12 'Earnings per share' to the Consolidated Financial Statements included herein. Adjusted diluted earnings per share excludes the gain on disposal of the Group's interest in NKT Flexibles.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended

(in $ millions)	Notes	**Twelve Months Ended 2012 31 Dec**	Thirteen Months Ended 2011 31 Dec
Net income		**847.2**	450.7
Foreign currency translation		**99.3**	43.4
Reclassification adjustments relating to disposal of foreign subsidiaries		**(18.9)**	–
Cash flow hedges:			
Net fair value gains/(losses) arising	35	**19.5**	(0.8)
Reclassification adjustments for amounts recognised in the Consolidated Income Statement	35	**1.0**	(4.2)
Adjustments for amounts transferred to the initial carrying amounts of hedged items	35	**8.1**	0.5
Share of other comprehensive (loss)/income of associates and joint ventures	17	**(3.5)**	1.1
Actuarial losses on defined benefit pension schemes	38	**(7.2)**	(0.3)
Tax relating to components of other comprehensive income	10	**(3.6)**	(1.1)
Other comprehensive income		**94.7**	38.6
Total comprehensive income		**941.9**	489.3

Total comprehensive income attributable to:			
Shareholders of the parent company		**925.0**	462.3
Non-controlling interests		**16.9**	27.0
		941.9	489.3

CONSOLIDATED BALANCE SHEET

subsea 7

As at (in $ millions)	Notes	**2012 31 Dec**	2011 31 Dec
Assets			
Non-current assets			
Goodwill	14	**2,574.8**	2,566.6
Intangible assets	15	**24.4**	34.9
Property, plant and equipment	16	**3,748.3**	3,352.2
Interest in associates and joint ventures	17	**223.1**	264.1
Advances and receivables	18	**47.4**	65.0
Derivative financial instruments	35	**20.5**	9.5
Retirement benefit assets	38	**0.3**	0.3
Deferred tax assets	10	**35.4**	40.9
		6,674.2	6,333.5
Current assets			
Inventories	20	**59.3**	57.4
Trade and other receivables	21	**1,090.3**	773.0
Derivative financial instruments	35	**53.5**	10.0
Assets classified as held for sale	22	**317.6**	319.4
Construction contracts – assets	24	**541.3**	515.1
Other accrued income and prepaid expenses	23	**471.0**	383.1
Restricted cash balances		**–**	52.7
Cash and cash equivalents		**1,287.9**	803.4
		3,820.9	2,914.1
Total assets		**10,495.1**	9,247.6
Equity			
Issued share capital	25	**703.6**	703.6
Treasury shares	26	**(443.9)**	(278.5)
Paid in surplus		**3,881.8**	4,185.5
Equity reserves	29	**359.2**	278.6
Translation reserves		**44.0**	(36.3)
Other reserves		**(81.3)**	(95.6)
Retained earnings		**1,861.1**	1,023.7
Equity attributable to shareholders of the parent company		**6,324.5**	5,781.0
Non-controlling interests	27	**43.8**	51.5
Total equity		**6,368.3**	5,832.5
Liabilities			
Non-current liabilities			
Non-current portion of borrowings	28	**1,040.9**	880.5
Retirement benefit obligations	38	**23.4**	29.4
Deferred tax liabilities	10	**111.6**	133.3
Provisions	32	**38.2**	22.8
Contingent liability recognised	33	**27.8**	31.3
Derivative financial instruments	35	**6.7**	14.9
Other non-current liabilities	30	**9.0**	30.9
		1,257.6	1,143.1
Current liabilities			
Trade and other liabilities	31	**1,452.0**	1,218.9
Derivative financial instruments	35	**31.6**	25.6
Current tax liabilities		**201.1**	190.3
Current portion of borrowings	28	**494.5**	12.9
Liabilities directly associated with assets classified as held for sale	22	**167.3**	188.4
Provisions	32	**11.8**	41.6
Construction contracts – liabilities	24	**434.1**	383.6
Deferred revenue	39	**76.8**	210.7
		2,869.2	2,272.0
Total liabilities		**4,126.8**	3,415.1
Total equity and liabilities		**10,495.1**	9,247.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 12 months ended 31 December 2012

(in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Equity reserves	Translation reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2012	**703.6**	**(278.5)**	**4,185.5**	**278.6**	**(36.3)**	**(95.6)**	**1,023.7**	**5,781.0**	**51.5**	**5,832.5**
Comprehensive income										
Net income	–	–	–	–	–	–	830.4	830.4	16.8	847.2
Exchange differences	–	–	–	–	99.2	–	–	99.2	0.1	99.3
Cash flow hedges	–	–	–	–	–	28.6	–	28.6	–	28.6
Reclassification adjustments relating to disposal of foreign subsidiaries	–	–	–	–	(18.9)	–	–	(18.9)	–	(18.9)
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	(3.5)	–	(3.5)	–	(3.5)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(7.2)	–	(7.2)	–	(7.2)
Tax relating to components of other comprehensive income	–	–	–	–	–	(3.6)	–	(3.6)	–	(3.6)
Total comprehensive income	**–**	**–**	**–**	**–**	**80.3**	**14.3**	**830.4**	**925.0**	**16.9**	941.9
Transactions with owners										
Shares acquired	–	(200.0)	–	–	–	–	–	(200.0)	–	(200.0)
Dividends declared and paid	–	–	(279.7)	–	–	–	–	(279.7)	(19.5)	(299.2)
Equity component of convertible notes	–	–	–	80.6	–	–	–	80.6	–	80.6
Purchase of non-controlling interest	–	–	–	–	–	–	(6.0)	(6.0)	–	(6.0)
Reclassification of non-controlling interest	–	–	–	–	–	–	5.1	5.1	(5.1)	–
Share-based compensation	–	–	12.5	–	–	–	–	12.5	–	12.5
Vesting of share-based payments	–	–	(35.0)	–	–	–	35.0	–	–	–
Shares reissued	–	34.6	–	–	–	–	–	34.6	–	34.6
Loss on reissuance of treasury shares	–	–	–	–	–	–	(27.1)	(27.1)	–	(27.1)
Tax effects	–	–	(1.5)	–	–	–	–	(1.5)	–	(1.5)
Total transactions with owners	**–**	**(165.4)**	**(303.7)**	**80.6**	**–**	**–**	**7.0**	**(381.5)**	**(24.6)**	**(406.1)**
Balance at 31 December 2012	**703.6**	**(443.9)**	**3,881.8**	**359.2**	**44.0**	**(81.3)**	**1,861.1**	**6,324.5**	**43.8**	**6,368.3**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 13 months ended 31 December 2011

(in $ millions)	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 December 2010	**389.9**	**(209.2)**	**508.8**	**110.7**	**(80.2)**	**(90.3)**	572.8	1,202.5	56.8	1,259.3
Comprehensive income										
Net income	–	–	–	–	–	–	423.7	423.7	27.0	450.7
Exchange differences	–	–	–	–	43.4	–	–	43.4	–	43.4
Cash flow hedges	–	–	–	–	–	(4.5)	–	(4.5)	–	(4.5)
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	1.1	–	1.1	–	1.1
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(0.3)	–	(0.3)	–	(0.3)
Tax relating to components of other comprehensive income	–	–	–	–	0.5	(1.6)	–	(1.1)	–	(1.1)
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**43.9**	**(5.3)**	**423.7**	**462.3**	**27.0**	**489.3**
Transactions with owners										
Shares acquired	–	(60.0)	–	–	–	–	–	(60.0)	–	(60.0)
Dividends declared and paid	–	–	–	–	–	–	–	–	(31.4)	(31.4)
Equity component of acquired convertible notes	–	–	–	189.5	–	–	–	189.5	–	189.5
Reclassification of equity component of convertible notes redeemed or converted in period	–	–	–	(21.6)	–	–	21.6	–	–	–
Purchase of non-controlling interest	–	–	–	–	–	–	(0.9)	(0.9)	–	(0.9)
Reclassification of non-controlling interest	–	–	–	–	–	–	0.9	0.9	(0.9)	–
Shares issued	313.7	–	3,637.1	–	–	–	–	3,950.8	–	3,950.8
Treasury shares acquired on acquisition	–	(75.6)	–	–	–	–	–	(75.6)	–	(75.6)
Fair value of acquired share-based payments – allocated to consideration	–	–	26.2	–	–	–	–	26.2	–	26.2
Share-based compensation	–	–	14.1	–	–	–	–	14.1	–	14.1
Vesting of share-based payments	–	–	(1.5)	–	–	–	1.5	–	–	–
Shares reissued	–	66.3	–	–	–	–	–	66.3	–	66.3
Gain on reissuance of treasury shares	–	–	–	–	–	–	4.1	4.1	–	4.1
Tax effects	–	–	0.8	–	–	–	–	0.8	–	0.8
Total transactions with owners	**313.7**	**(69.3)**	**3,676.7**	**167.9**	**–**	**–**	**27.2**	**4,116.2**	**(32.3)**	**4,083.9**
Balance at 31 December 2011	**703.6**	**(278.5)**	**4,185.5**	**278.6**	**(36.3)**	**(95.6)**	**1,023.7**	**5,781.0**	**51.5**	**5,832.5**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Paid in surplus
This reserve represents the amount exceeding the par value on issuance of shares. In addition it includes the IFRS 2 'Share-based payments' charge relating to the Group's equity-settled share-based payments. The IFRS 2 'Share-based payments' charge is reclassified to retained earnings on the vesting of the related performance shares and restricted shares and on the exercise of related share options.

Equity reserves
This reserve represents the equity component of the convertible loan notes (refer to Note 29 'Convertible loan notes').

Translation reserve
This reserve represents the exchange rate differences which arise upon the translation of foreign entities' assets and liabilities into the Group's reporting currency.

Other reserves
Other reserves relate to:

- the net cumulative gains or losses in respect of hedging activity entered into by the Group;
- actuarial gains and losses incurred by the Group's defined benefit pension schemes; and
- the Group's share of other comprehensive gains and losses from its associates and joint ventures.

Legal reserve
Luxembourg law requires that 5% of Subsea 7 S.A.'s unconsolidated net income is allocated to a legal reserve annually, prior to declaration of dividends. This requirement continues until the reserve is 10% of its issued share capital at par value, after which no further allocations are required until further issuance of shares. The legal reserve may also be satisfied by allocation of the required amount at the issuance of shares or by a transfer from paid in surplus. The legal reserve is not distributable. The legal reserve for all issued common shares has been satisfied and appropriate allocations are made to the legal reserve account at the time of each issuance of new shares. The legal reserve is presented within retained earnings.

CONSOLIDATED CASH FLOW STATEMENT

For the period ended

subsea 7

(in $ millions)	Notes	**Twelve Months Ended 2012 31 Dec**	Thirteen Months Ended 2011 31 Dec
Net cash generated from operating activities	40	**515.1**	579.4
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**0.9**	10.2
Purchases of property, plant and equipment		**(708.7)**	(672.5)
Purchases of intangible assets	15	**(3.9)**	(4.3)
Net cash flows from disposal of subsidiary	41	**344.2**	–
Cash from acquisition		**–**	458.9
Interest received		**14.2**	20.0
Proceeds from sale of assets classified as held for sale		**–**	0.1
Dividends received from associates and joint ventures	17	**51.0**	63.7
Purchase of non-controlling interest		**(6.0)**	(1.0)
Investment in associates and joint ventures	17	**(45.3)**	–
Net cash used in investing activities		**(353.6)**	(124.9)
Cash flows from financing activities			
Interest paid		**(28.7)**	(45.2)
Proceeds from borrowings		**698.9**	189.9
Repayments of borrowings		**(12.2)**	(180.7)
Share buy-backs		**(200.0)**	(60.0)
Dividends paid to equity shareholders of the parent		**(199.4)**	–
Cash distributed within dividend-in-kind		**(11.8)**	–
Issue of shareholder loan to joint ventures		**(1.2)**	–
Loan repayments from joint ventures		**5.0**	7.5
Proceeds from reissuance of treasury shares		**7.2**	8.2
Dividends paid to non-controlling interests		**–**	(13.7)
Net cash generated/(used) in financing activities		**257.8**	(94.0)
Net increase in cash and cash equivalents		**419.3**	360.5
Cash and cash equivalents at beginning of period		**803.4**	484.3
Effect of foreign exchange rate movements on cash and cash equivalents		**(12.8)**	(3.9)
Decrease/(increase) in restricted cash balances		**52.7**	(49.7)
Decrease in cash balances classified as assets held for sale	22	**25.3**	12.2
Cash and cash equivalents at end of period		**1,287.9**	803.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Subsea 7 is a seabed-to-surface engineering, construction and services contractor to the offshore energy industry worldwide. The address of the registered office is 412F, route d'Esch, L-2086 Luxembourg. The 'Group' consists of Subsea 7 S.A. and its subsidiaries at 31 December 2012.

Subsea 7 provides all the products and services required for subsea field development, including project management, design and engineering, procurement, fabrication, survey, installation, and commissioning of production facilities on the seabed and the tie-back of these facilities to fixed or floating platforms or to the shore. The Group also offers the full spectrum of products and capabilities to deliver full Life-of-Field services to its clients. Through the i-Tech division, the Group provides remotely operated vehicles and tooling services to support exploration and production activities.

Authorisation of Consolidated Financial Statements

Subsea 7 S.A. is a company registered in Luxembourg whose common shares trade on Oslo Børs and as American Depositary Receipts ('ADRs') over-the-counter in the US. The Consolidated Financial Statements were authorised for issue by the Board of Directors on 13 March 2013.

Presentation of Consolidated Financial Statements

These Consolidated Financial Statements are presented in US Dollars ($), the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in Note 3 'Significant accounting policies'.

During the prior period, the Group's accounting reference date was changed to 31 December. The comparatives for these Consolidated Financial Statements are therefore for the 13 months to 31 December 2011. As a result the comparatives are not entirely comparable with the current period of 12 months to 31 December 2012.

2. Adoption of new accounting standards

(i) Effective new accounting standards

The Group has adopted the following new and amended International Financial Reporting Standards and interpretations as of 1 January 2012:

IFRS 7 'Financial Instruments: Disclosures – Disclosures on transfers of financial assets'

The amendment requires additional disclosures regarding financial assets that have been transferred but not derecognised to enable the user of the Consolidated Financial Statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures regarding continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The adoption of the amendment did not have any impact on the Group's financial position or performance.

(ii) Accounting standards, amendments and interpretations issued but not yet effective

Relevant new standards, amendments and interpretations issued by the International Accounting Standards Board ('IASB') but not yet effective and not applied in these Consolidated Financial Statements are as follows:

	Effective Date	Date applicable to the Group
IFRS 9 'Financial Instruments' (issued 12 November 2009 and subsequent amendments to IFRS 9 and IFRS 7 issued 16 December 2011)*	1 January 2015	1 January 2015
IFRS 10 'Consolidated Financial Statements' (Issued 12 May 2011)	1 January 2014	1 January 2014
IFRS 11 'Joint Arrangements' (Issued 12 May 2011)	1 January 2014	1 January 2014
IFRS 12 'Disclosures of Interests in Other Entities' (Issued 12 May 2011)	1 January 2014	1 January 2014
IFRS 13 'Fair Value Measurement' (Issued 12 May 2011)	1 January 2013	1 January 2013
IAS 27 'Separate Financial Statements' (Issued 12 May 2011)	1 January 2014	1 January 2014
IAS 28 'Investments in Associates and Joint Ventures' (Issued 12 May 2011)	1 January 2014	1 January 2014
Presentation of Items of Other Comprehensive Income (Amendments to IAS 1), (Issued 16 June 2011)	1 July 2012	1 January 2013
Revisions to IAS 19 'Employee Benefits' (Issued 16 June 2011)	1 January 2013	1 January 2013
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 and IFRS 7), (Issued 16 December 2011)	1 January 2014	1 January 2014
Improvements to IFRSs 2009-2011 (issued 17 May 2012)*	1 January 2013	1 January 2013

* These standards, amendments or interpretations have not been endorsed for use by the European Union at the date of this report and as a result the date applicable to the Group may change.

IFRS 9 'Financial Instruments'

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 'Financial Instruments: Recognition and Measurement' and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases once issued.

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 will 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. Based on the preliminary analyses performed, IFRS 10 is not expected to 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. Based on the preliminary analyses performed, IFRS 11 is not expected to have any 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 also required but IFRS 12 has no impact on the Group's financial position or performance.

IFRS 13 'Fair Value Measurement'
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is not expected to a significant impact on the results of the Group.

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.

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

Revisions to IAS 19 'Employee Benefits'
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The impact of this amendment will not be significant for the Group as actuarial gains and losses are currently recognised in full in other comprehensive income. The impact on the net benefit expense due to the expected return on plan assets being calculated using the same interest rate as applied for the purpose of discounting the benefit obligation is not expected to be significant.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 and IFRS 7)
The amendments clarify:

- the meaning of 'currently has a legally enforceable right of set-off'; and
- that some gross settlement systems may be considered equivalent to net settlement.

Further, the IASB issued disclosure requirements regarding the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The new disclosures will require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will assist users of the consolidated financial statements to understand the extent to which the Group has set off in its Consolidated Balance Sheet and the effects of rights of set-off on the Group's rights and obligations. These amendments are not expected to impact the Group's financial position or performance.

Improvements to IFRSs 2009-2011
In May 2012, the IASB issued the Improvements to IFRSs 2009 – 2011, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The amendments which could impact the Group are:

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

The impact for the Group is not expected to be significant.

3. Significant accounting policies

Basis of accounting

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the IASB and as adopted by the European Union ('EU'). They comply with Article 4 of the EU IAS Regulation.

The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The Consolidated Financial Statements have been prepared on the going concern basis. This assumption is based on the level of cash and cash equivalents at the year end, the credit facilities in place, the forecast cash flows for the Group and the backlog position at 31 December 2012. The principal accounting policies adopted are consistent with the Consolidated Financial Statements for the period ended 31 December 2011, except where noted in Note 2 'Adoption of new accounting standards'.

Change of presentation

The Consolidated Cash Flow Statement comparatives in Note 40 'Cash flow from operating activities' have been restated to be consistent with current period presentation. The change mainly relates to the representation of foreign exchange movements in the reconciliation of cash flows from operating activities from a separate line to 'changes in operating assets and liabilities'. The change in presentation does not have an impact on net operating income, net income, earnings per share or the Consolidated Balance Sheet in the current or prior periods and consequently no third Consolidated Balance Sheet has been presented.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is assumed to exist where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Subsidiaries

The results of subsidiaries acquired or disposed of are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to align these with the accounting policies of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

All subsidiaries are 100% owned except those listed in Note 27 'Non-controlling interests'.

Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholders' share of changes in equity since the date of the combination.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence, but not control, and which is neither a subsidiary nor a joint venture. Significant influence is defined as the right to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a commercial business governed by an agreement between two or more participants, giving them joint control over the business.

Investments in associates and joint ventures are accounted for using the equity method. Under this method, the investment is carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any provisions for impairment. The Consolidated Income Statement reflects the Group's share of the results of operations after tax of the associate or joint venture. Losses in excess of the Group's interest (which includes any long-term interests that, in substance, form part of the Group's net investment) are only recognised to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Where there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share in the Consolidated Statement of Comprehensive Income. Net incomes and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's interest.

Jointly controlled operations

A jointly controlled operation is an operation involving two or more participants where each participant uses its own resources and carries out its own part of the operations separately from the activities of the other participant(s). Each participant owns and controls its own resources that it uses in the joint operation and incurs its own expenses and raises its own financing. Rules are established governing how revenues and any common expenses are shared among the participants. Jointly controlled operations do not involve the establishment of a corporation, partnership, entity, or a financial structure that is separate from the investors themselves.

Jointly controlled operations are accounted for as if the operations were conducted independently. The Group accounts for its share of the assets, liabilities and cash flows arising from the operations in its own accounting records, with no further adjustments or consolidation procedures being necessary.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Service revenues

Revenues received for the provision of services under charter agreements, day-rate contracts, reimbursable/cost-plus contracts and similar contracts are recognised on an accrual basis as services are provided.

Long-term contracts
Long-term contracts are accounted for using the percentage-of-completion method. Revenue and gross profit are recognised each period based upon the advancement of the work-in-progress.

The percentage-of-completion is calculated based on the ratio of costs incurred to date to total estimated costs. Provisions for anticipated losses are made in full in the period in which they become known.

If the stage of completion is insufficient to enable a reliable estimate of gross profit to be established (typically when less than 5% completion has been achieved), revenues are recognised to the extent of contract costs incurred where it is probable that they will be recoverable.

A significant portion of the Group's revenue is billed under fixed-price contracts. However, due to the nature of the services performed, variation orders and claims are commonly billed to clients in the normal course of business. Additional contract revenue arising from variation orders is recognised when it is probable that the client will approve the variation and the amount of revenue arising from the variation can be reliably measured. Revenue resulting from claims is recognised in contract revenue only when negotiations have reached an advanced stage such that it is probable that the client will accept the claim and that the amount can be measured reliably.

During the course of multi-year projects the accounting estimates may change. The effects of such changes are accounted for in the period of change and the cumulative income recognised to date is adjusted to reflect the latest estimates. Such revisions to estimates do not result in restating amounts in previous periods.

Investment income
Investment income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued by reference to the principal outstanding and the effective interest rate applicable; which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dry-dock, mobilisation and decommissioning expenditure
Dry-dock expenditure incurred to maintain a vessel's classification is capitalised as a distinct component of the asset and amortised over the period until the next scheduled dry-docking (usually between 2½ to 5 years). At the date of the next dry-docking, the previous dry-dock asset is derecognised. All other repair and maintenance costs are recognised in the Consolidated Income Statement as incurred.

Mobilisation expenditures which consist of expenditure incurred prior to the deployment of vessels or equipment are classified as prepayments and expensed over the project life.

Decommissioning expenditures incurred to restore a leased vessel to its original or agreed condition are classified as a provision when the Group recognises it has a present obligation and a reliable estimate can be made of the amount of the obligation.

Leasing
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use an asset. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessee
Finance lease obligations are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Consolidated Balance Sheet as a finance lease obligation.

Operating lease payments are recognised as an expense in the Consolidated Income Statement on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are aggregated and recognised on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised on the same basis as the related lease.

Improvements to leased assets are expensed in the Consolidated Income Statement unless they significantly increase the value of the leased asset, under which circumstance this expenditure will be capitalised and subsequently recognised as an expense in the Consolidated Income Statement on a straight-line basis over the lease term applicable to the leased asset.

The Group as Lessor
Assets held under a finance lease are presented in the Consolidated Balance Sheet as a receivable at an amount equal to the net investment in the lease.

Foreign currency translation
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency is defined as the currency of the primary economic environment in which the entity operates. While this is usually the local currency, the US Dollar is designated as the functional currency of certain entities where transactions and cash flows are predominantly in US Dollars.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. All exchange differences are taken to net income or loss. Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Foreign exchange revaluations on short-term inter-company balances are recognised in the Consolidated Income Statement. Revaluations on long-term inter-company loans are recognised in the translation reserve.

3. Significant accounting policies *continued*

The assets and liabilities of operations which have a non-US Dollar functional currency are translated into US Dollars at the exchange rate prevailing at the balance sheet date. The exchange rate differences arising on the translation are taken directly to the translation reserve in equity. Income and expenditure items are translated at the weighted average exchange rates for the year. On disposal of an entity with a non-US Dollar functional currency the cumulative translation amount previously recognised in equity is reclassified to the Consolidated Income Statement.

The main exchange rates used throughout the Group at the balance sheet date, compared to the US Dollar, were as follows:

GBP	0.62
EUR	0.76
NOK	5.58
BRL	2.08

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in net income or loss in the period in which they are incurred.

Finance costs

Finance costs or charges, including premiums on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest rate method.

Retirement benefit costs

The Group administers several defined contribution pension plans. Payments in respect of such plans are charged to the Consolidated Income Statement as they fall due.

In addition, the Group administers a small number of defined benefit pension plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method, with actuarial valuations carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur in the Consolidated Statement of Comprehensive Income.

Past service cost is recognised immediately to the extent that the benefits have already vested, or amortised on a straight-line basis over the average period until the benefits vest.

The retirement benefit obligations recognised in the Consolidated Balance Sheet represent the present value of the defined benefit obligations adjusted for unrecognised past service costs, reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

The Group is also committed to providing lump-sum bonuses to employees upon retirement in certain countries. These retirement bonuses are unfunded, and are recorded in the Consolidated Balance Sheet at their actuarial valuation.

Taxation

Income tax

The tax expense represents the sum of the current tax and deferred tax.

The current tax is based on the taxable net income for the year. Taxable net income differs from net income as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other years and further excludes items that are never taxable or deductible. The tax rates and tax laws used to compute the amount of current tax payable are those that are enacted or substantively enacted at the balance sheet date. Current tax relating to items recognised directly in equity is recognised in equity and not in net income or loss.

Income tax assets or liabilities are representative of respective taxes being owed or owing to the local tax authorities and additional tax provisions which have been recognised in the computation of the Group's tax position. Full details of these positions are set out in Note 10 'Taxation'.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable net income, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable net incomes will be available against which deductible temporary differences can be utilised. Such assets or liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets or liabilities in a transaction (other than in a business combination) that affects neither the taxable net income nor the accounting net income.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable net income will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are substantively enacted and expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited directly in other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current income tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current income tax assets and liabilities on a net basis.

Other taxes

Other taxes which include irrecoverable value added tax, sales tax and custom duties represent the amounts receivable or payable to local tax authorities in the countries where the Group operates and are included within net operating income.

Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the Consolidated Income Statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 'Share-based Payments'; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete, to the extent that the amounts can be reasonably calculated. These provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained regarding facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information regarding facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the Consolidated Income Statement.

Goodwill is not amortised but is reviewed for impairment at least annually.

Intangible assets other than goodwill

Overview

Intangible assets acquired separately are measured at cost at date of initial acquisition. The cost of intangible assets acquired in a business combination is determined as their fair value at the date of their acquisition. Following initial recognition, intangible assets are reflected at cost less amortisation and impairment losses. Internally generated intangible assets are not capitalised with the exception of development expenditure which meets the criteria for capitalisation.

Intangible assets with finite lives are amortised over their useful economic life and are assessed for impairment at least annually or whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible assets with finite useful lives are reviewed at each financial year end as a minimum. Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortisation period or method, and are treated as changes in accounting estimates. The amortisation expense related to intangible assets with finite lives is recognised in the Consolidated Income Statement in the expense category consistent with the function of the intangible asset.

3. Significant accounting policies *continued*

Research and development costs

Research costs are expensed as incurred. The Group recognises development expenditure on an individual project as an internally generated intangible asset when it can demonstrate:

- the technical feasibility of completing the asset such that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the asset;
- how the asset will generate probable future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure the expenditure reliably during development.

Following initial recognition of the development expenditure as an internally generated intangible asset, the asset is reported at cost less any accumulated amortisation and impairment losses.

Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. The asset is tested for impairment at least annually or when indicators of impairment exist.

Software

Software is measured initially at purchase cost and amortised on a straight-line basis over its estimated useful life of three to five years. The charge is included in administrative expenses in the Consolidated Income Statement.

Customer contracts (Backlog)

As part of the acquisition of Subsea 7 Inc. backlog was recorded at fair value and is being amortised over the term of the projects in backlog as at the date of acquisition.

Developed technology

Developed technology was recorded at fair value as part of the acquisition of Subsea 7 Inc. and is being amortised on a straight-line basis over five years.

Other

Other intangible assets are recognised at cost and have an indefinite useful life.

Property, plant and equipment

Property, plant and equipment, including major spare parts acquired and held for future use, are stated at cost less accumulated depreciation and accumulated impairment losses.

Assets under construction are carried at cost, less any recognised impairment loss. Borrowing costs are capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

- Vessels 10 to 25 years
- Operating equipment 3 to 10 years
- Buildings 20 to 25 years
- Other assets 3 to 7 years
- Land is not depreciated

Vessels are depreciated to their estimated residual value. Costs for fitting out vessels are capitalised and amortised over a period equal to the remaining useful life of the related equipment.

Residual values, useful lives and methods of depreciation are reviewed at least annually, and adjusted if appropriate.

The gains or losses arising on disposal or retirement of assets are determined as the difference between any sales proceeds and the carrying amount of the asset. These are reflected in the Consolidated Income Statement in the period that the asset is disposed of or retired.

Assets classified as held for sale

The Group classifies assets and disposal groups as being held for sale when the following criteria are met:

- management has committed to a plan to sell the asset or disposal group;
- the asset or disposal group is available for immediate sale in its present condition;
- an active programme to locate a buyer and other actions required to complete the plan to sell the asset or disposal group have been initiated;
- the sale of the asset or disposal group is highly probable;
- transfer of the asset or disposal group is expected to qualify for recognition as a completed sale, within one year;
- the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assets or disposal groups classified as held for sale are measured at the lower of their carrying value or fair value less costs of disposal. Non-current assets are not depreciated once they meet the criteria to be held for sale and are shown separately on the face of the Consolidated Balance Sheet.

Tendering and bid costs

Costs incurred in the tendering process are expensed as incurred.

Impairment of non-financial assets

At each balance sheet date the Group assesses whether there is any indication that non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value-in-use. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset is allocated.

Where the carrying amount of an asset exceeds its recoverable value, the asset is considered impaired and is written down to its recoverable value. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognised in the Consolidated Income Statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Consolidated Income Statement.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the combination. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Recoverable amounts are determined based on value-in-use calculations using discounted cash flow projections based on financial budgets approved by the Executive Management Team. The discount rate applied to the cash flow projections is the Group's cost of capital at the impairment test date. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised in the Consolidated Income Statement.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Associates and joint ventures

At each balance sheet date the Group determines whether there is any objective evidence that the investment in an associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the estimated fair value of the associate or joint venture and its carrying value. The resultant amount is recognised in the Consolidated Income Statement.

Inventories

Inventories comprise materials, consumables and spares and are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for using the weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to conclude the sale.

Financial instruments

Overview

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial assets are classified into the following categories:

- fair value through the profit or loss ('FVTPL');
- loans and receivables; and
- derivatives designated as hedging instruments in an effective hedge.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. Significant accounting policies *continued*

The Group's financial assets include cash and short-term deposits, restricted cash, trade and other receivables, loans and other receivables and derivative financial instruments.

Financial liabilities and equity instruments are classified as either 'other financial liabilities' or as derivatives designated as hedging instruments in an effective hedge according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and is recorded as the proceeds received, net of direct issue costs. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

The Group's financial liabilities include trade and other payables, borrowings and derivative financial instruments.

Initial recognition

All financial assets are recognised in the Consolidated Balance Sheet and subsequently derecognised on the trade date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

Financial liabilities are recognised in the Consolidated Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Initial measurement

Financial instruments are initially measured at cost plus transaction costs, with the exception of those classified as FVTPL and all derivatives which are measured at fair value.

Subsequent measurement – fair values

After initial recognition the fair values of derivatives are measured on bid prices for assets held and offer prices for issued liabilities based on values quoted in active markets.

Impairment

At each balance sheet date the Group assesses whether any indications exist that a financial asset or group of financial assets is impaired.

Impairment losses are recorded if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The impairment is recognised through the Consolidated Income Statement.

In any subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss will be reversed through the Consolidated Income Statement if the asset is accounted for at amortised cost.

Derivatives

The Group enters into both derivative financial instruments and non-derivative financial instruments in order to manage its foreign currency exposures. The principal derivatives used are forward foreign currency contracts and interest rate swaps.

All derivative transactions are undertaken and maintained in order to manage the foreign currency and interest risks associated with the Group's underlying business activities and the financing of those activities.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value. Unrealised gains or losses are reported in the Consolidated Income Statement and are included within derivatives in the Consolidated Balance Sheet. The Group will only reassess the existence of an embedded derivative if the terms of the host financial instrument change significantly.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the Consolidated Income Statement within 'other gains and losses'. Changes in the fair value of embedded derivatives are recognised in the Consolidated Income Statement within net operating income.

Hedge accounting

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents its assessment as to whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Changes in the carrying value of financial instruments that are designated as hedges of future cash flows ('cash flow hedges') and are found to be effective are recognised directly in equity. Any portion of the derivative that is excluded from the hedging relationship, together with any ineffectiveness, is recognised immediately in 'other gains and losses' in the Consolidated Income Statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Consolidated Income Statement in the same period in which the hedged item affects net income. Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amount deferred in equity is included in the initial measurement of that non-monetary asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gains or losses relating to cash flow hedges recognised in equity are retained in equity and subsequently recognised in the Consolidated Income Statement in the same period in which the previously hedged item affects net income. If a forecast hedged transaction is no longer expected to occur, the net cumulative gains or losses recognised in equity are immediately transferred to the Consolidated Income Statement.

Restricted cash balances

Restricted cash balances comprise funds held in a separate bank account which will be used to settle specific capital expenditure or settle accrued taxation liabilities, and deposits made by the Group as security for certain third-party obligations. Cash balances that are subject to restrictions that expire after more than one year are classified under non-current assets.

Cash and cash equivalents

Cash and cash equivalents in the Consolidated Balance Sheet comprise cash at bank, cash on hand and short-term highly liquid assets with an original maturity of three months or less and readily convertible to known amounts of cash. Utilised bank overdraft facilities are included within current borrowings.

Trade receivables and other receivables

The Group assesses at each balance sheet date whether any indications exist that a financial asset or group of financial assets is impaired.

In relation to trade receivables, a provision for impairment is made when there is objective evidence that the Group may not be able to collect all of the amounts due. Impaired trade receivables are derecognised when they are assessed as uncollectible.

Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, is recognised in the Consolidated Income Statement.

Convertible loan notes

The components of the convertible loan notes issued by the Group that exhibit characteristics of a liability are recognised as a liability in the Consolidated Balance Sheet, net of transaction costs. On issuance of the convertible loan notes, the fair value of the liability components are determined using a market rate for equivalent non-convertible loan notes. This amount is classified as a financial liability measured at amortised cost until it is extinguished on conversion or redemption.

The fair value of the instrument, which is generally the net proceeds less the fair value of the liability, is allocated to the conversion option which is recognised and included in shareholders' equity, net of transaction costs. The carrying value of the conversion option is not remeasured.

Transaction costs are apportioned between the liability and equity components of the convertible loan notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Treasury shares

Own equity instruments which are reacquired ('treasury shares') are deducted from equity at cost. No gains or losses are recognised in the Consolidated Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past transaction or event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group is virtually certain that some or all of a provision will be reimbursed, that reimbursement is recognised as a separate asset. The expense relating to any provision is reflected in the Consolidated Income Statement at a current pre-tax rate that reflects the risks specific to the liability. Where the provision is discounted, any increase in the provision due to the passage of time is recognised as a finance cost.

Restructuring charges

The Group accounts for restructuring charges, including statutory legal requirements to pay redundancy costs, when there is a legal or constructive obligation and they can be reliably measured. The Group recognises a provision for redundancy costs when it has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring.

Legal claims

In the ordinary course of business, the Group is subject to various claims, litigation and complaints. A provision for a loss will be recognised if it is probable that a liability has been incurred and the amount of the loss can be reliably estimated.

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of:

- the amount that would be recognised in accordance with the general guidance for provisions above; or
- the amount initially recognised.

When the obligation is no longer considered possible the contingent liability will be released to the Consolidated Income Statement.

Other contingent liabilities are disclosed but not recognised until they meet the criteria for recognition as a provision.

3. Significant accounting policies *continued*

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share options, shares and cash-settled share-based bonuses based on the performance of the Group.

Equity-settled transactions with employees are measured at fair value at the date on which they are granted. The fair value is determined using a Black-Scholes or Monte Carlo model. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

The cumulative expense recognised for equity-settled transactions at each balance sheet date, until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The cumulative expense also includes the estimated future charge to be borne by the Group in respect of social security contributions, based on the intrinsic unrealised value of the stock option using the stock price on the balance sheet date. The net income or expense for a period represents the difference in cumulative expense recognised at the beginning and end of that period.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Cash-settled share-based payments are measured at fair value on the date on which the awards were granted. The cost is recognised and remeasured at the balance sheet date until the liability is settled with any changes in fair value recognised in the Consolidated Income Statement.

Earnings per share

Earnings per share is computed using the weighted average number of common shares and common share equivalents outstanding during each period excluding treasury shares. The dilutive effect of outstanding options, performance shares and restricted shares is reflected as additional share dilution in the computation of diluted earnings per share. The convertible loan notes are included in the diluted earnings per share if the effect is dilutive, regardless of whether the conversion price has been met.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in Note 3 'Significant accounting policies', management is required to make judgements, estimates and assumptions regarding 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 the Group believes 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.

Revenue recognition on long-term contracts

The Group accounts for long-term construction, engineering and project management contracts using the percentage-of-completion method, which is standard practice in the industry. Contract revenues and total cost estimates are reviewed by Territory management on a monthly basis. Any adjustments made as a result of these reviews are reflected in contract revenues or contract costs in the reporting period, based on the percentage-of-completion method. To the extent that these adjustments result in a reduction or elimination of previously reported contract revenues or costs, a charge or credit is recognised in the Consolidated Income Statement; amounts in prior periods are not restated. Such a charge or credit may be significant depending on the size and complexity of the project, the stage of project completion and the size of the adjustment. Additional information that enhances and refines the estimating process is often obtained after the balance sheet date but before the issuance of the Consolidated Financial Statements, which may result in an adjustment of the Consolidated Financial Statements based on events, favourable or unfavourable, occurring after the balance sheet date. However, if a condition arises after the balance sheet date which is of a non-adjusting nature the results recognised in the Consolidated Financial Statements will not be adjusted.

The percentage-of-completion method requires the Group to make reliable estimates of costs incurred, full job contract costs and full job contract revenues. The Group's Project Monthly Status Reports ('PMSRs') evaluate the likely outcome of projects for the purpose of making reliable cost and revenue estimates. A key element of the PMSRs is the estimate of contingency. Contingency is an estimate of the cost required to cover identified future project risks. The Group uses a systematic approach in estimating contingency based on a risk register which identifies and assesses the likelihood and impact of these risks. The most significant risks and uncertainties in the Group's projects typically relate to the offshore phase of operations. Identified risks that materialise may result in increased costs. Contingency associated with these risks will be released from the full job cost estimates, throughout the remaining life of the project, as these risks are eliminated.

Revenue recognition on variation orders and claims

A major portion of the Group's revenue is billed under fixed-price contracts. Due to the nature of the services performed, variation orders and claims are commonly billed to clients.

A variation order is an instruction by the client for a change in the scope of the work to be performed under the contract which may lead to an increase or a decrease in contract revenue based on changes in the specifications or design of an asset and changes in the duration of the contract. Additional contract revenue is recognised when it is probable that the client will approve the variation and the amount of revenue arising from the variation can be reliably measured.

A claim is an amount that may be collected as reimbursement for costs not included in the contract price. A claim may arise from delays caused by clients, errors in specifications or design, and disputed variations in contract work. The measurement of revenue arising from claims is subject to a high level of uncertainty and is dependent on the outcome of negotiations. Therefore, claims are only recognised in contract revenue when negotiations have reached an advanced stage such that it is probable that the client will accept the claim and the amount can be measured reliably.

Recognition of revenue on variation orders and claims is governed by the Group's revenue recognition approval process. No profit relating to any variation order or claim is recognised until formal approval is received from the client.

Goodwill carrying value

Goodwill is reviewed at least annually to assess whether there is objective evidence to indicate that the carrying value of goodwill is impaired at a cash-generating unit level. The impairment review is performed on a value-in-use basis which requires the estimation of future net operating cash flows. Further details relating to the impairment review can be found in Note 14 'Goodwill'.

Valuation of dividend-in-kind

The distribution as a dividend-in-kind of the shares in Veripos Inc. was recognised at the estimated fair value of the assets distributed. The fair value was calculated using a discounted cash flow model. The discounted cash flow model required management to use its judgement to estimate the future net operating cash flows, future capital expenditure and growth rates of the Veripos business.

Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciation is recorded on a straight-line basis over the useful lives of the assets. Management uses its experience to estimate the remaining useful life and residual value of an asset.

When events or changes in circumstances indicate that the carrying value of property, plant and equipment may not be recoverable, a review for impairment is carried out by management. Where the value-in-use method is used to determine the recoverable amount of an asset, management uses its judgement in determining the CGU to which the assets belong, or whether the asset can be considered a CGU in its own right. The level of aggregation of assets is a significant assumption made by management and includes consideration of which assets generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In many cases management has determined that vessels are not CGUs individually as they do not generate cash inflows independently of other Group assets. Once the CGU has been determined management uses its judgement in determining the value-in-use of the CGU as detailed in Note 14 'Goodwill'. Where an asset is considered a CGU in its own right management uses its judgement to estimate asset utilisation, profitability, remaining life and the discount rate used.

Recognition of provisions and disclosure of contingent liabilities

Management uses its judgement in determining whether the Group should recognise a provision or disclose a contingent liability. These judgements include whether the Group has a present obligation and the probability that an outflow of economic benefit is required to settle the obligation. Management may also use its judgement to determine the amount of the obligation. Management uses external advisors to assist with some of these judgements. Further details relating to provisions and contingent liabilities can be found in Note 32 'Provisions' and Note 33 'Commitments and contingent liabilities'.

Taxation

The Group is subject to taxation in numerous jurisdictions and significant judgement is required in calculating the consolidated tax provision. There are many transactions for which the ultimate tax determination is uncertain and for which the Group makes provisions based on an assessment of internal estimates and appropriate external advice, including decisions regarding whether to recognise deferred tax assets in respect of tax losses. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the difference will impact the tax charge in the period in which the outcome is determined. Full details of all judgements and other issues considered are set out in Note 10 'Taxation'.

Fair value of derivatives and other financial instruments

As described in Note 35 'Financial instruments', management uses its judgement in selecting an appropriate valuation technique for financial instruments not quoted on an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in Note 35 'Financial instruments'.

Share-based payments

In determining the fair value and associated cost of share-based payments and other employee benefit schemes, management uses its judgement in selecting an appropriate valuation technique and assumptions including future share price volatility, employee attrition and employee compensation adjustments. The final cost of each award will be determined upon vesting of the various schemes, at which point the appropriate adjustments will be made. Details of the schemes are provided in Note 37 'Share-based payments'.

Defined benefit pension plan valuations

Management utilises the services of qualified actuaries to calculate estimates of the defined benefit pension liabilities for its funded and unfunded plans. Details of the financial and actuarial assumptions used by the actuaries in determining the retirement benefit assets and obligations and are provided in Note 38 'Retirement benefit obligations'.

5. Revenue

An analysis of the Group's revenue is as follows:

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
SURF	**4,216.9**	3,315.2
Conventional and Hook-up	**1,076.2**	1,244.1
Life-of-Field	**763.5**	698.9
i-Tech	**217.4**	184.0
Veripos[a]	**22.6**	34.3
Total revenue	**6,296.6**	5,476.5

(a) The Group completed the spin-off of its Veripos division during July 2012 (see Note 11 'Dividends').

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.

Asia Pacific & Middle East (APME)

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

Brazil (BRAZIL)

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

North Sea & Canada (NSC) formerly North Sea, Mediterranean & Canada (NSMC)

This segment includes activities in Northern Europe and Eastern Canada and includes a pipeline fabrication spoolbase in Vigra, Norway and a pipeline bundle fabrication yard at Wick, Scotland. It also includes the Normand Oceanic and Eidesvik 7 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 joint ventures NKT Flexibles (for the period from 1 January 2012 to 3 February 2012 when it was classified as asset held for sale) and Seaway Heavy Lifting.

The accounting policies of the reportable segments were the same as the Group's accounting policies which are described in Note 3 'Significant accounting policies'. During the period the Group reorganised its business segments and the Mediterranean activities are now reported within AFGOM; previously they were included within NSC. The results for the Mediterranean activities were considered insignificant during 2012 and 2011 and as a result no restatement of prior period comparatives has been made.

The Chief Operating Decision Maker ('CODM') was the Chief Executive Officer of the Group. The CODM was assisted by the other members of the Executive Management Team. Neither total assets nor total liabilities by segment are regularly provided to the CODM and consequently no such disclosure is included.

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

For the period ended 31 December 2012

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue[a,b]	**2,182.4**	**277.5**	**986.5**	**2,837.8**	**12.4**	**6,296.6**
Operating (expenses)/income	**(1,636.8)**	**(237.1)**	**(985.3)**	**(2,405.7)**	**63.3**	**(5,201.6)**
Share of net income of associates and joint ventures	**0.3**	**29.0**	**5.4**	**2.5**	**49.1**	**86.3**
Depreciation, mobilisation and amortisation expenses	**(85.3)**	**(1.7)**	**(75.2)**	**(80.7)**	**(90.5)**	**(333.4)**
Impairment reversal of assets held for sale	**3.7**	**–**	**–**	**–**	**–**	**3.7**
(Impairment)/impairment reversal of property, plant and equipment	**(2.0)**	**–**	**–**	**–**	**1.0**	**(1.0)**
Net operating income/(loss) from operations	**428.0**	**46.0**	**(25.4)**	**363.8**	**(4.2)**	**808.2**
Investment income from bank deposits						**15.8**
Other gains and losses						**289.6**
Finance costs						**(44.8)**
Income before taxes						**1,068.8**

(a) Revenue represents only external revenues for each segment. An analysis of inter-segment revenues has not been included as this information is not provided to the CODM.

(b) Four clients in the period accounted for more than 10% of the Group's revenue. The revenue from these clients and the attributable segments were $980.7 million (AFGOM and BRAZIL), $970.0 million (AFGOM, APME and NSC), $875.4 million (AFGOM, APME and NSC) and $622.7 million (AFGOM and NSC).

For the period ended 31 December 2011

(in $ millions)	AFGOM	APME	BRAZIL	NSC	CORP	Total
Revenue[a,b]	2,542.9	180.7	686.3	2,054.4	12.2	5,476.5
Operating (expenses)/income	(1,960.0)	(152.8)	(630.5)	(1,802.6)	15.8	(4,530.1)
Share of net income of associates and joint ventures	0.5	27.8	5.5	–	69.9	103.7
Depreciation, mobilisation and amortisation expenses	(85.8)	(3.2)	(72.5)	(72.2)	(103.7)	(337.4)
Impairment of assets held for sale	(9.5)	–	–	–	–	(9.5)
Impairment of property, plant and equipment	–	–	–	–	(15.9)	(15.9)
Net operating income/(loss) from operations	490.3	18.2	22.5	179.0	(69.5)	640.5
Investment income from bank deposits						20.0
Other gains and losses						6.9
Finance costs						(40.4)
Income before taxes						627.0

(a) Revenue represents only external revenues earned by each segment. An analysis of inter-segment revenues has not been included as this information is not provided to the CODM.

(b) Four clients in the period accounted for more than 10% of the Group's revenue. The revenue from these clients and the attributable segments were $935.6 million (AFGOM and NSC), $730.7 million (AFGOM, NSC and APME), $658.1 million (Brazil) and $553.4 million (AFGOM and NSC).

Geographic information

Revenues from external customers

The segmental information above shows revenues split by geographic areas. This split is based on the location of the work performed.

Based on the country of registered office of the Group subsidiary/branch, revenues are split as follows:

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
United Kingdom	**1,992.6**	1,811.3
Norway	**1,408.8**	781.2
Nigeria	**836.0**	776.6
Brazil	**585.4**	397.6
United States of America	**343.1**	189.9
France	**278.9**	464.3
Angola	**268.5**	622.2
Other countries	**583.3**	433.4
	6,296.6	5,476.5

Non-current assets

Goodwill is allocated to operating segments rather than individual legal entities therefore it is not possible to allocate to individual countries – the allocation of goodwill to Territories is shown in Note 14 'Goodwill'.

Based on the country of registered office of the Group subsidiary/branch, other non-current assets excluding goodwill, post-employment benefit assets, financial instruments and deferred tax assets are located in the following countries:

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Luxembourg	**499.0**	522.9
United Kingdom	**1,338.1**	1,087.4
Bermuda	**856.1**	706.3
Isle of Man	**472.5**	549.6
Norway	**252.9**	278.8
Cyprus	**203.1**	146.6
Gibraltar	**183.4**	197.1
Other countries	**238.1**	227.5
	4,043.2	3,716.2

7. Net operating income

Net operating income includes:

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
Research and development costs	**17.4**	13.4
Employee benefits	**1,828.4**	1,742.9
Depreciation of property, plant and equipment (Note 16)	**314.5**	307.6
Amortisation of intangible assets (Note 15)	**13.2**	26.4
Mobilisation costs	**5.7**	3.4
Impairment of property, plant and equipment (Note 16)	**1.0**	15.9
(Impairment reversal)/impairment of assets held for sale (Note 22)	**(3.7)**	9.5
Auditor's remuneration	**3.2**	3.2

Fees billed to the Group by the principal auditing firm Deloitte S.A. and other member firms of Deloitte Touche Tohmatsu Limited were:

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
Audit fees	**1.4**	1.4
Audit-related fees	**0.7**	0.4
Tax fees	**1.0**	1.4
Other fees	**0.1**	–
	3.2	3.2

Reconciliation of operating expenses and administrative expenses by nature

	2012			2011		
For the period ended (in $ millions)	**Operating expenses**	**Administration expenses**	**Total expenses**	Operating expenses	Administration expenses	Total expenses
Employee benefits	**1,628.0**	**200.4**	**1,828.4**	1,503.9	239.0	1,742.9
Depreciation, amortisation and mobilisation	**313.4**	**20.0**	**333.4**	315.5	21.9	337.4
Net (impairment reversal)/impairment	**(2.7)**	**–**	**(2.7)**	25.4	–	25.4
Other expenses	**3,262.9**	**152.7**	**3,415.6**	2,685.3	148.7	2,834.0
Total	**5,201.6**	**373.1**	**5,574.7**	4,530.1	409.6	4,939.7

8. Other gains and losses

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
Losses on disposal of property, plant and equipment	**(0.2)**	(2.9)
Gain/(loss) on derivative financial instruments	**0.6**	(2.0)
Reclassification adjustments relating to foreign subsidiaries disposed of in the year	**18.9**	–
Net foreign currency exchange gains	**21.1**	11.8
Total	**40.4**	6.9

9. Finance income and costs

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
Finance income		
Investment income from bank deposits	**15.8**	20.0
Total finance income	**15.8**	20.0
Finance costs		
Interest and fees on borrowings	**23.2**	21.4
Interest on convertible loan notes (Note 29)	**48.5**	45.3
Total borrowing costs	**71.7**	66.7
Less: amounts included in the cost of qualifying assets	**(30.7)**	(25.3)
	41.0	41.4
Interest on tax liabilities	**3.8**	(1.0)
Total finance costs	**44.8**	40.4

Borrowing costs included in the cost of qualifying assets during the period was calculated by applying to expenditure on such assets a capitalisation rate of between 4.80% and 7.35% dependent on the funding source (2011: 7.35%).

10. Taxation

Tax recognised in the Consolidated Income Statement

For the period ended (in $ millions)	2012 31 Dec	2011 31 Dec
Tax charged in the Consolidated Income Statement		
Current tax		
Corporation tax on profits for the year	**253.2**	254.3
Adjustments in respect of prior years	**(30.3)**	(14.1)
Total current tax	**222.9**	240.2
Deferred tax	**(1.3)**	(63.9)
Total	**221.6**	176.3

Tax recognised in the Consolidated Statement of Comprehensive Income

For the period ended (in $ millions)	2012 31 Dec	2011 31 Dec
Tax relating to items charged/(credited) to comprehensive income		
Current tax		
Exchange differences	**(0.6)**	(0.5)
Income tax recognised directly in comprehensive income	**(0.6)**	(0.5)
Deferred tax		
Net gain on revaluation of cash flow hedges	**6.0**	2.3
Actuarial losses on defined benefit pension plans	**(1.8)**	(0.7)
Deferred tax recognised directly in comprehensive income	**4.2**	1.6
Total	**3.6**	1.1

Tax recognised in the Consolidated Statement of Changes in Equity

For the period ended (in $ millions)	2012 31 Dec	2011 31 Dec
Deferred tax		
Share-based payments	**1.5**	(0.8)
Total	**1.5**	(0.8)

Reconciliation of the total tax charge

Income taxes have been provided based on the tax laws and rates in the countries where the business operates and earns income. The Group's tax charge is determined by applying the statutory tax rate to the net income earned in each of the jurisdictions in which the Group operates in accordance with the relevant tax laws and taking account of permanent differences between accounting and tax net incomes.

The Group's tax charge has been reconciled to a tax rate for the period of 28% (2011: 28%), being the expected blended statutory rate taking into consideration the jurisdictions in which the Group operates.

For the period ended (in $ millions)	2012 31 Dec	2011 31 Dec
Income before taxes	**1,068.8**	627.0
Tax at the blended statutory tax rate of 28% (2011: 28%)	**299.3**	175.6
Effects of:		
Benefit of Tonnage tax regime	**(18.6)**	(13.6)
Different tax rates of subsidiaries operating in other jurisdictions	**(24.8)**	33.6
Gain on disposal of investment in subsidiaries	**(69.7)**	–
Movement in unprovided deferred tax	**8.6**	(12.0)
Net income not subject to tax	**(11.2)**	0.1
Tax effect of share of net income of associates and joint ventures	**(23.9)**	(17.5)
Withholding taxes and unrelieved overseas taxes	**49.3**	29.8
Changes in tax rates	**(3.8)**	(3.8)
Non deductible expenses and other permanent differences	**39.4**	9.2
Adjustments related to prior years	**(23.0)**	(25.1)
Tax charge in the Consolidated Income Statement	**221.6**	176.3

10. Taxation *continued*

Deferred tax

Movements in the net deferred tax balance were:

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec
At period beginning	**(92.4)**	(21.3)
Recognised on business combination	**–**	(130.6)
Deferred tax related to disposal of subsidiaries	**25.6**	–
Credited/(charged) to:		
Consolidated Income Statement	**1.3**	63.9
Consolidated Statement of Comprehensive Income	**(4.2)**	(1.6)
Consolidated Statement of Changes in Equity	**(1.5)**	0.8
Transfer to current tax	**(3.3)**	–
Exchange differences	**(1.7)**	(3.6)
At period end	**(76.2)**	(92.4)

On Combination, the Group recognised a net $130.6 million deferred tax liability on intangible and tangible assets and other temporary differences.

Deferred tax assets and liabilities before offset of balances within countries where permitted, are as follows:

As at 31 December 2012

(in $ millions)	**Deferred tax asset**	**Deferred tax liability**	**Net recognised deferred tax asset/(liability)**	**Amount credited/ (charged) in the Consolidated Income Statement**
Property, plant and equipment	**–**	**(98.0)**	**(98.0)**	**12.3**
Accrued expenses	**9.5**	**(47.2)**	**(37.7)**	**(33.0)**
Share-based payments	**3.5**	**–**	**3.5**	**(2.8)**
Convertible loan notes	**–**	**(6.1)**	**(6.1)**	**5.2**
Unremitted earnings	**–**	**(19.1)**	**(19.1)**	**1.7**
Intangibles	**–**	**(4.5)**	**(4.5)**	**2.5**
Tax losses	**86.1**	**–**	**86.1**	**24.7**
Other	**–**	**(0.4)**	**(0.4)**	**(9.3)**
Total	**99.1**	**(175.3)**	**(76.2)**	**1.3**

As at 31 December 2011

(in $ millions)	Deferred tax asset	Deferred tax liability	Net recognised deferred tax asset/(liability)	Amount credited/ (charged) in the Consolidated Income Statement
Property, plant and equipment	–	(110.3)	(110.3)	23.2
Accrued expenses	8.8	(13.5)	(4.7)	(10.7)
Share-based payments	7.9	–	7.9	(1.2)
Convertible loan notes	–	(11.3)	(11.3)	6.4
Unremitted earnings	–	(20.8)	(20.8)	5.2
Intangibles	–	(7.0)	(7.0)	6.5
Tax losses	42.8	–	42.8	33.7
Other	11.0	–	11.0	0.8
Total	70.5	(162.9)	(92.4)	63.9

Deferred tax is analysed in the Consolidated Balance Sheet, after offset of balances within countries, as:

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Deferred tax assets	**35.4**	40.9
Deferred tax liabilities	**(111.6)**	(133.3)
Total	**(76.2)**	(92.4)

At the balance sheet date, the Group had tax losses of $388.0 million (2011: $222.7 million) available for offset against future taxable profits. A deferred tax asset has been recognised in respect of $270.7 million (2011: $131.3 million) of such losses. No deferred tax asset has been recognised in respect of the remaining $117.3 million (2011: $91.4 million) as it is not considered probable that there will be future profits available. In addition the Group has other unrecognised deferred tax assets of approximately $14.8 million (2011: $27.6 million) in respect of other temporary differences.

Deferred tax has not been recognised in respect of the Group's investments in subsidiaries and branches where remittance is not contemplated and where the timing of distribution is within the control of the Group and for those associates and interests in joint ventures where it has been determined that no additional tax will arise. The aggregate amount of temporary differences for which deferred tax liabilities have not been recognised is $691.0 million (2011: $467.0 million).

Tonnage tax regime

The tax charge reflected a net benefit in the period of $18.6 million (2011: $13.6 million) as a result of activities taxable under the current UK and Norwegian Tonnage tax regimes, as compared to the tax that would be payable if those activities were not eligible.

Net operating losses ('NOLs') including Internal Revenue Code ('IRC') s.163j in the US

NOLs to carry forward in various countries will expire as follows:

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Within five years	**1.4**	4.7
5 to 10 years	**11.4**	10.6
11 to 15 years	**–**	0.9
16 to 20 years	**73.2**	85.6
Without time limit	**302.0**	120.9
Total	**388.0**	222.7

As at 31 December 2012, the Group recognised a deferred tax asset based on partial access to US NOLs of $65.0 million (2011: $41.0 million) and IRC s.163j suspended interest deductions of $26.7 million (2011: $42.1 million). There is a further $8.2 million (2011: $43.7 million) of US NOLs on which a deferred tax asset has not been recognised.

Tax contingencies and provisions

Business operations are carried out in several countries, through subsidiaries and branches of subsidiaries, and the Group is subject to the jurisdiction of a significant number of tax authorities. Furthermore, the offshore mobile nature of the Group's operations means that the Group routinely has to deal with complex international tax issues.

In the ordinary course of events operations will be subject to audit, enquiry and possible re-assessment by different tax authorities. The Group provides taxes for the amounts of taxes that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. Each year management completes a detailed review of uncertain tax positions across the Group and makes provisions based on the probability of the liability arising. The principal risks that arise for the Group are in respect of permanent establishment, transfer pricing and other similar international tax issues. In common with other international groups, the conflict between the Group's global operating model and the jurisdictional approach of tax authorities often leads to uncertainty on tax positions.

In 2012, operations in various countries were subject to enquiries, audits and disputes, including, but not limited to, those in Brazil, Angola, Gabon, Congo, Nigeria, the US and Norway. These audits are at various stages of completion. The Group's operating entities in these countries have co-operated fully with the relevant tax authorities while seeking to defend their tax positions.

As a result of the above, in the period, the Group recorded a net tax decrease of $14.8 million (2011: $10.2 million) in respect of ongoing tax audits and in respect of the Group's review of its uncertain tax positions. The decrease arises from both adjustments that the Group has agreed with the relevant tax authorities and re-estimates that it has made.

It is possible that the ultimate resolution of these matters could result in tax charges that are materially higher or lower than the amount provided.

11. Dividends

2011 final dividend

Based on the Group's continued strong financial performance and position at the end of 2011 and confidence in the future, a final dividend of $0.60 per common share that related to the thirteen month period ended 31 December 2011 was approved by the shareholders on 22 June 2012 and recognised in shareholders' equity in June 2012. The total dividend of $199.4 million was paid on 5 July 2012 to shareholders of record as of 28 June 2012 and on 10 July 2012 to holders of ADRs.

No dividends were paid in 2011.

Distribution of Veripos business

On 12 April 2012, Subsea 7 S.A. announced the spin-off and listing on Oslo Børs of Veripos.

The distribution as a dividend-in-kind of the shares in Veripos Inc. was approved by the shareholders on 22 June 2012 and recognised in shareholders' equity in June 2012. This dividend-in-kind of the common shares of Veripos Inc. entitled shareholders with a holding of ten common shares in Subsea 7 S.A. to one share in Veripos Inc., with fractional entitlements being rounded downwards without compensation to the nearest full number of Veripos Inc. shares. This dividend was paid on 24 July 2012 to shareholders of record as of 28 June 2012 and the cash equivalent was paid to holders of ADRs thereafter. On distribution the assets and liabilities of the Veripos Inc. group were derecognised.

In accordance with IFRIC 17 'Distributions of Non-cash Assets to Owners' the dividend was recognised at the estimated fair value of the assets distributed. This was calculated as $80.3 million using a discounted cash flow model which equated to a dividend of $0.24 per share. The carrying value of the assets distributed was $74.7 million, including allocated goodwill of $43.4 million, resulting in a gain on distribution being recognised in the period of $5.6 million.

12. Earnings per share

Basic and diluted earnings per share

Basic earnings per share amounts are 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 shares purchased by the Group, and held as treasury shares (Note 26 '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 Company has two categories of dilutive potential common shares: convertible loan notes and share options. The convertible loan notes are assumed to have been converted into common shares and the net income is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
Net income attributable shareholders of the parent company	**830.4**	423.7
Interest on convertible loan notes (less amounts capitalised)	**17.8**	20.5
Earnings used in the calculation of diluted earnings per share	**848.2**	444.2

For the period ended	**2012 31 Dec Number of shares**	2011 31 Dec Number of shares
Weighted average number of common shares used in the calculation of basic earnings per share	**333,837,742**	323,783,380
Convertible loan notes	**44,877,456**	40,750,146
Share options and restricted shares	**1,463,286**	1,775,974
Weighted average number of common shares used in the calculation of diluted earnings per share	**380,178,484**	366,309,500

In the period 2,266,216 shares relating to restricted share and share option plans (2011: 2,220,677) that could potentially dilute the weighted average earnings per share, were excluded from the calculation of diluted earnings per share due to being anti-dilutive for the period.

(in $ per share)	**2012 31 Dec**	2011 31 Dec
Basic earnings per share	**2.49**	1.31
Diluted earnings per share	**2.23**	1.21

Adjusted diluted earnings per share

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

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

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
Net income attributable to shareholders of the parent company	**830.4**	423.7
Less: Gain on disposal of NKT Flexibles	**(243.6)**	–
Interest on convertible loan notes (less amounts capitalised)	**17.8**	20.5
Earnings used in the calculation of adjusted diluted earnings per share	**604.6**	444.2

Weighted average number of common shares used in the calculation of adjusted diluted earnings per share (as above)	**380,178,484**	366,309,500

(in $ per share)	**2012 31 Dec**	2011 31 Dec
Adjusted earnings per share	**1.59**	1.21

13. Business combination

During the prior period on 7 January 2011, Subsea 7 S.A. completed its acquisition of Subsea 7 Inc. after closing of Oslo Børs. Subsea 7 S.A. issued 156,839,759 new shares to the Subsea 7 Inc. shareholders in consideration for all of the issued Subsea 7 Inc. shares, at which point, the shares of Subsea 7 Inc. were delisted. The fair value of each newly issued share was $25.19, based on the closing price on Oslo Børs on the date of combination, 7 January 2011, resulting in an aggregate market value of shares issued of $4.0 billion.

Goodwill arising on this acquisition was $2.5 billion. The accounting for the acquisition was completed in 2011.

14. Goodwill

The movement in goodwill during the period was as follows:

For the period (in $ millions)	2012 31 Dec	2011 31 Dec
At period beginning	**2,566.6**	–
Acquired in business combination	**–**	2,538.5
Derecognised on distribution of business (Note 11)	**(43.4)**	–
Exchange differences	**51.6**	28.1
At period end	**2,574.8**	2,566.6

The carrying amounts of goodwill allocated to the cash-generating units was as follows:

As at (in $ millions)	2012 31 Dec	2011 31 Dec
AFGOM	**753.5**	732.1
NSC	**1,062.1**	1,037.8
Brazil	**298.1**	292.9
APME	**390.0**	390.0
i-Tech	**71.1**	70.4
VERIPOS	**–**	43.4
Total	**2,574.8**	2,566.6

The Group performed its annual impairment test as at 31 December 2012.

The recoverable amounts of the cash-generating units ('CGUs') have been determined based on a value-in-use calculation using cash flow projections approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections were in the range 13.0% – 17.1% and, for the purposes of these calculations, cash flows beyond the five-year period were extrapolated using a 3% growth rate.

As a result of the analyses, management did not identify an impairment of any of the CGUs to which goodwill was allocated.

The calculations of value-in-use for all CGUs are most sensitive to the following assumptions:

- gross margins;
- discount rates;
- asset utilisation;
- market share during the period; and
- growth rate used to extrapolate cash flows.

Gross margins – Gross margins are based on forecast margins for confirmed work, tender pricing, management's expectations and past experience for new work.

Discount rates – Discount rates reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the Group. Country risk premiums were not applied to the discount rates as the cash flows were risk adjusted.

Asset utilisation – The level of utilisation of the Group's vessels and equipment has a significant impact on its ability to earn revenue and generate income. Asset utilisation is based on historical levels, adjusted for any foreseen changes in the market and for additions to the fleet.

Market share – Management assessed, using judgement and historical information, levels of available work which will be won by the CGU, relative to its competitors.

Growth rate estimates – The 3% growth rate used to extrapolate the cash flow projections beyond the five-year period is below market expectation for long-term growth in the subsea industry, but reflects the current market conditions and market uncertainty.

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any CGU to materially exceed its recoverable amount. In particular management noted the following:

- The discount rates used were based on the capital structure of the Group. By benchmarking to other companies in the industry, it was estimated that a normalised capital structure for the industry would decrease the discount rates applied. The decreased discount rates would improve the headroom in the impairment calculations.
- A 15% decrease in EBITDA across the forecast period would not result in an impairment charge in any CGU.
- Management recognises that, amongst other factors, the speed of technological change and the possibility of new entrants can have a significant impact on growth assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate of 3%. A reduction to 0% long-term growth would not result in an impairment in any CGU.

15. Intangible assets

For the period (in $ millions)	Software	Customer contracts (Backlog)	Developed technology	Other intangibles	Total
Cost					
At 1 December 2010	32.1	–	–	0.9	33.0
Additions	4.3	–	–	–	4.3
Derecognition	(21.7)	–	–	–	(21.7)
Acquired through business combination	5.8	32.4	12.6	–	50.8
Exchange differences	(0.2)	0.3	–	–	0.1
At 31 December 2011	20.3	32.7	12.6	0.9	66.5
Additions	3.9	–	–	–	3.9
Disposals	(1.9)	–	–	–	(1.9)
Exchange differences	(0.2)	–	0.3	(0.1)	–
At 31 December 2012	**22.1**	**32.7**	**12.9**	**0.8**	**68.5**
Amortisation					
At 1 December 2010	26.9	–	–	–	26.9
Charge for the year	3.7	20.2	2.5	–	26.4
Derecognition	(21.7)	–	–	–	(21.7)
At 31 December 2011	8.9	20.2	2.5	–	31.6
Charge for the year	3.7	6.7	2.8	–	13.2
Disposals	(0.6)	–	–	–	(0.6)
Exchange differences	(0.1)	–	–	–	(0.1)
At 31 December 2012	**11.9**	**26.9**	**5.3**	**–**	**44.1**
Carrying amount:					
At 31 December 2011	11.4	12.5	10.1	0.9	34.9
At 31 December 2012	**10.2**	**5.8**	**7.6**	**0.8**	**24.4**

16. Property, plant and equipment

For the period (in $ millions)	Vessels	Operating equipment	Land and buildings	Other assets	Total
Cost					
At 1 December 2010[a]	1,924.5	4.1	31.0	47.0	2,006.6
Additions[a]	574.0	14.4	44.2	36.3	668.9
Acquired through business combination	1,420.4	174.4	186.2	9.4	1,790.4
Exchange differences	14.1	1.1	(1.1)	0.4	14.5
Impairment	(15.9)	–	–	–	(15.9)
Reclassified as held for sale	–	–	(21.6)	(31.3)	(52.9)
Disposals	(159.0)	(12.9)	(2.7)	(13.5)	(188.1)
At 31 December 2011[a]	3,758.1	181.1	236.0	48.3	4,223.5
Additions	507.8	129.4	20.6	20.9	678.7
Exchange differences	51.8	4.7	1.7	(0.5)	57.7
Reclassified as held for sale	(67.4)	–	(8.2)	(0.8)	(76.4)
Disposals	(79.6)	–	–	(4.4)	(84.0)
At 31 December 2012	**4,170.7**	**315.2**	**250.1**	**63.5**	**4,799.5**
Accumulated depreciation					
At 1 December 2010[a]	685.3	2.1	6.3	34.1	727.8
Charge for the period[a]	236.1	46.7	12.3	12.5	307.6
Exchange differences	(2.2)	0.2	(0.2)	0.1	(2.1)
Eliminated on disposals	(137.7)	(10.2)	(2.1)	(12.0)	(162.0)
At 31 December 2011[a]	784.9	35.4	16.3	34.7	871.3
Charge for the year	260.5	30.6	11.2	12.2	314.5
Impairment	0.6	–	–	0.4	1.0
Exchange differences	5.6	0.8	0.2	0.2	6.8
Reclassified as held for sale	(62.3)	–	(2.5)	(0.8)	(65.6)
Eliminated on disposals	(74.0)	–	–	(2.8)	(76.8)
At 31 December 2012	**915.3**	**66.8**	**25.2**	**43.9**	**1,051.2**
Carrying amount:					
At 31 December 2011	2,489.2	649.3	200.4	13.3	3,352.2
At 31 December 2012	**3,255.4**	**248.4**	**224.9**	**19.6**	**3,748.3**

(a) Cost and accumulated depreciation of assets previously classified within the operating equipment category were reclassified to other categories as at 1 December 2010 and in the additions and depreciation charge of the prior period.

Included in the table above are assets under construction of $390.9 million (2011: $730.3 million).

17. Interest in associates and joint ventures

Investment in associates and joint ventures

(in $ millions)	Year End	Country/Place of Registration	Territory		Ownership %	2012 31 Dec	2011 31 Dec
Dalia[(a)]	31 December	France	AFGOM	Associate	17.5	**1.1**	1.0
Global Oceon	31 December	Nigeria	AFGOM	Associate	40	**–**	–
Deep Seas Insurance[(b)]	31 December	Cayman Islands	CORP	Associate	49	**1.2**	1.9
Nigerstar 7	31 December	Nigeria	AFGOM	Joint Venture	49	**0.1**	0.1
SIMAR	31 December	Angola	AFGOM	Joint Venture	49	**0.1**	–
SapuraAcergy	31 January	Malaysia	APME	Joint Venture	50	**54.8**	31.6
Subsea 7 Malaysia	31 December	Malaysia	APME	Joint Venture	30	**–**	3.0
Technip Subsea 7	31 December	Australia, Singapore, Netherlands	APME	Joint Venture	45	**1.9**	0.6
GSNC Shallow	31 December	Brazil	Brazil	Joint Venture	50	**7.5**	5.0
NKT Flexibles[(c)]	31 December	Denmark	CORP	Joint Venture	49	**–**	123.1
Seaway Heavy Lifting	31 December	Cyprus/ Netherlands	CORP	Joint Venture	50	**106.2**	97.8
Normand Oceanic	31 December	Norway	NSC	Joint Venture	50	**34.7**	–
Eidesvik Seven	31 December	Norway	NSC	Joint Venture	50	**15.5**	–
Total						**223.1**	264.1

(a) The Group owns 17.5% and has a significant influence in Dalia. Subsea 7 has a veto on decision-making as decisions require unanimous agreement.

(b) The remaining 51% ownership of Deep Seas Insurance is held by Siem Industries Inc., a related party as described in Note 36 'Related party transactions'.

(c) The Group's interest in NKT Flexibles was disposed of in 2012.

The movement in the balance of equity investments, including long-term advances was as follows:

For the period (in $ millions)	2012 31 Dec	2011 31 Dec
At period beginning	**264.1**	215.1
Share of net income of associates and joint ventures	**86.3**	103.7
Dividends distributed to the Group	**(51.0)**	(61.3)
Investment acquired from business combination	**–**	7.7
Increase in investment	**45.3**	–
Disposal of investment	**(125.7)**	–
Reclassification of negative investment balance as liabilities	**1.2**	–
Share of other comprehensive income of associates and joint ventures	**(3.5)**	1.1
Exchange differences	**6.4**	(2.2)
At period end	**223.1**	264.1

Share of net income/(loss) of associates and joint ventures:

For the period ended (in $ millions)	2012 31 Dec	2011 31 Dec
Seaway Heavy Lifting	**50.8**	40.3
SapuraAcergy	**31.9**	27.4
GSNC Shallow	**5.4**	5.5
Normand Oceanic	**2.5**	–
Technip Subsea 7	**1.2**	0.4
Global Oceon	**0.3**	0.5
Deep Seas Insurance	**(0.6)**	0.2
NKT Flexibles	**(1.1)**	29.4
Subsea 7 Malaysia	**(4.1)**	–
Total	**86.3**	103.7

Taxation in respect of the NKT Flexibles joint venture, which had the legal status of a partnership, was, prior to its disposal, included in the results of the relevant subsidiary, which held the investment in the joint venture.

Disposal of joint venture

On 4 April 2012, the Group disposed of its subsidiary Danco AS which held the Group's 49% interest in NKT Flexibles (see Note 41 'Disposal of subsidiary'). The joint venture was presented within the Corporate segment.

Dividends distributed to the Group
In the period the Group received a total of $51.0 million dividends from four joint ventures (Seaway Heavy Lifting, NKT Flexibles, Technip Subsea 7 and GSNC Shallow). In 2011 the Group received a total of $61.3 million dividends from five joint ventures (Seaway Heavy Lifting, NKT Flexibles, Technip Subsea 7, Deep Seas Insurance Limited and Dalia).

Increase in investment
During the year an investment of $45.3 million (2011: $nil) was made in three new joint ventures; Normand Oceanic, Eidesvik Seven and SIMAR.

Significant restrictions
SapuraAcergy is regulated by the Central Bank of Malaysia in respect of the repatriation of funds. Dividends are not subject to withholding taxes but are restricted to 70% of SapuraAcergy's income after tax. Dividend payments from Seaway Heavy Lifting are restricted to 75% of net income of the previous year.

Capital commitments
At 31 December 2012, Seaway Heavy Lifting had capital commitments of $13.1 million (2011:$nil).

Reclassification of negative investment balance
Losses in excess of the investment value are recognised as non-current liabilities when the Group is committed to providing ongoing financial support to the joint venture. In the year, $1.2 million (2011: $nil) was recognised relating to Subsea 7 Malaysia.

Summarised financial information
Summarised financial information for associates and joint ventures, representing 100% of the respective amounts included in their financial statements including IFRS adjustments, is as follows:

Aggregated financial data for associates and joint ventures

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
Revenue	**915.6**	595.2
Operating expenses	**(716.3)**	(370.8)
Gross profit	**199.3**	224.4
Other income	**1.1**	0.3
Other expenses	**(24.1)**	(43.6)
Net income	**176.3**	181.1

Aggregated balance sheet data for associates and joint ventures

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Current assets	**680.8**	760.2
Non-current assets	**968.6**	918.4
Total assets	**1,649.4**	1,678.6
Current liabilities	**589.6**	613.2
Non-current liabilities	**614.0**	527.9
Total liabilities	**1,203.6**	1,141.1

Transactions with associates and joint ventures
In the period the Group provided services to associates and joint ventures amounting to $62.9 million (2011: $49.4 million), purchased goods and services from associates and joint ventures amounting to $12.1 million (2011: $12.9 million) and received $3.0 million (2011: $1.1 million) in insurance claims from its associate Deep Seas Insurance.

The Consolidated Balance Sheet included:

(in $ millions)	**2012 31 Dec**	2011 31 Dec
Non-current amounts due from associates and joint ventures (Notes 18 and 36)	**21.7**	26.0
Trade receivables with associates and joint ventures (Note 21)	**51.4**	24.8
Trade payables with associates and joint ventures (Note 31)	**(4.2)**	–
Net receivables with associates and joint ventures	**68.9**	50.8

Guarantee arrangements with joint ventures are shown within Note 28 'Borrowings'.

18. Advances and receivables

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Non-current amounts due from associates and joint ventures (Note 17)	**21.7**	26.0
Capitalised fees for long-term loan facilities	**1.1**	5.2
Deposits held by third parties	**0.8**	6.8
Finance lease receivables (Note 19)	**0.6**	1.5
Other receivables	**23.2**	13.3
Prepaid expenses	**–**	12.2
Total	**47.4**	65.0

19. Finance lease receivables

	2012 31 Dec	**2012 31 Dec**	2011 31 Dec	2011 31 Dec
As at (in $ millions)	**Gross Investment**	**Present value of minimum lease payments**	Gross Investment	Present value of minimum lease payments
Investment in finance lease contracts:				
Within one year	**1.3**	**1.2**	1.3	1.2
Years two to five exclusive	**0.7**	**0.6**	2.0	1.5
Total	**2.0**	**1.8**	3.3	2.7
Less unearned finance revenues	**(0.2)**	**–**	(0.6)	–
Net investment in finance lease contracts	**1.8**	**1.8**	2.7	2.7

From July 2011, *Kommandor Subsea* was bareboat chartered for 36 months. As of the balance sheet date, the present value of future lease payment receivables under non-cancellable finance leases are shown above.

20. Inventories

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Materials and spares	**41.8**	47.1
Consumables	**17.5**	10.3
Total	**59.3**	57.4

Total amount of inventory charged to the Consolidated Income Statement	**274.8**	125.1
Provision for obsolescence charged to the Consolidated Income Statement	**2.6**	1.1
Reversal of provision for obsolescence credited to the Consolidated Income Statement	**(0.6)**	(0.6)

The inventories include a provision for obsolescence as at 31 December 2012 of $8.8 million (2011: $6.8 million). During the period $0.6 million (2011: $0.6 million) of the provision for obsolescence was reversed due to slow moving items which were subsequently consumed during the period. There were no inventories pledged as security for liabilities.

21. Trade and other receivables

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Trade receivables (Note 35)	**818.3**	554.0
Allowance for doubtful debts	**(3.0)**	(4.9)
Net trade receivables	**815.3**	549.1
Current amounts due from associates and joint ventures (Note 17)	**51.4**	24.8
Advances to suppliers	**60.0**	77.7
Other taxes receivable	**125.1**	80.3
Finance lease receivable	**1.2**	1.2
Other receivables	**37.3**	39.9
Total	**1,090.3**	773.0

Details of how the Group manages its credit risk and further analysis of the trade receivables balance can be found in Note 35 ‘Financial instruments’.

Other taxes receivable relate to sales tax, withholding tax, corporation tax, social security and other indirect taxes.

Other receivables include amounts receivable from employees and insurance claims.

22. 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, in the offshore oil and gas industry in Angola. Sonacergy provides overseas logistics services and support to Sonamet.

The disposal of a 19% interest in each of Sonamet and Sonacergy will result in a reduction of the 55% ownership interest the Group held in each at 31 December 2012 to 36% at which point the investments will be equity accounted for as associates. The finalisation of this sale is conditional upon the completion of certain conditions precedent, none of which are under the control of the Group. There is no indication that the sale will not proceed as anticipated and the Group expects completion during 2013. The Group believes continued disclosure as assets held for sale is appropriate.

During the period, a decrease in the carrying value of the net assets of Sonamet and Sonacergy, following dividends declared, resulted in an impairment reversal of $3.7 million (2011: $9.5 million impairment charge). The reversal was recognised in the Consolidated Income Statement in operating expenses. The cumulative impairment charge at 31 December 2012 was $7.4 million (2011: $11.1 million).

$15 million loan facility

On 26 May 2008 Sonamet entered into a $15 million loan facility with BAI-Banco African de Investimentos S.A. for the construction of facilities at Sonamet's Lobito yard. After an initial 20 month repayment grace period the loan is repayable in equal instalments over 66 months, with a final maturity of 26 July 2015. The loan carries interest at six months LIBOR plus 2% per year, subject to a minimum rate of 7% and a maximum rate of 8%. The facility is not guaranteed by the Group or any of its other subsidiaries. As at 31 December 2012, $7.3 million (2011: $10.1 million) was drawn on this facility. There are no covenants over this facility.

Vessels classified as held for sale

Acergy Harrier, Acergy Legend and *Acergy Orion* were transferred to assets held for sale during 2012 as part of the Group's vessel divestiture plan. It is expected that these vessels will be divested in 2013. An impairment charge of $2.0 million relating to *Acergy Orion* was recognised in the Consolidated Income Statement in operating expenses.

The major classes of assets and liabilities comprising the 100% interest of the operations and assets classified as held for sale were as follows:

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Property, plant and equipment	**217.9**	169.1
Intangible assets	**5.6**	2.7
Inventories	**22.7**	17.9
Trade and other receivables	**44.1**	73.2
Other accrued income and prepaid expenses	**1.1**	5.0
Cash and cash equivalents	**26.2**	51.5
Total assets classified as held for sale	**317.6**	319.4
Non-current portion of borrowings	**7.3**	10.1
Trade and other payables	**149.6**	103.5
Current tax liabilities	**–**	0.8
Deferred revenue	**10.4**	74.0
Total liabilities associated with assets classified as held for sale	**167.3**	188.4
Net assets classified as held for sale	**150.3**	131.0

The allocation of assets and liabilities held for sale by segment is as follows:

As at (in $ millions)	**2012 31 Dec Assets**	**2012 31 Dec Liabilities**	2011 31 Dec Assets	2011 31 Dec Liabilities
AFGOM	**307.4**	**167.3**	319.4	188.4
BRAZIL	**4.5**	**–**	–	–
NSC	**5.7**	**–**	–	–
Total	**317.6**	**167.3**	319.4	188.4

23. Other accrued income and prepaid expenses

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Unbilled revenue	**385.4**	320.6
Prepaid expenses	**85.6**	62.5
Total	**471.0**	383.1

Unbilled revenue relates to completed work day-rate contracts, which has not yet been billed to customers.

Prepaid expenses are incurred in the normal course of business and represent expenditure which has been deferred and which will be recognised within the next 12 months.

24. Construction contracts

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Contracts in progress		
Construction contracts – assets	**541.3**	515.1
Construction contracts – liabilities	**(434.1)**	(383.6)
Total	**107.2**	131.5
Contract costs incurred plus recognised net profits less recognised losses to date	**6,227.2**	5,882.5
Less: progress billings	**(6,120.0)**	(5,751.0)
Total	**107.2**	131.5

Revenue from construction contracts in the period was $4.3 billion (2011: $3.7 billion).

Advances received from clients for construction contracts amounted to $74.8 million (2011: $196.8 million). These advances from construction contracts are included within total advances disclosed in Note 39 'Deferred revenue'.

25. Issued share capital

Authorised shares

As at	**2012 31 Dec Number of shares**	**2012 31 Dec in $ millions**	2011 31 Dec Number of shares	2011 31 Dec in $ millions
Authorised common shares, $2.00 par value	**450,000,000**	**900.0**	450,000,000	900.0

Issued shares

As at	**2012 31 Dec Number of shares**	**2012 31 Dec in $ millions**	2011 31 Dec Number of shares	2011 31 Dec in $ millions
Fully paid and issued common shares	**351,793,731**	**703.6**	351,793,731	703.6
The issued common shares consist of:				
Common shares excluding treasury shares (see below)	**331,639,199**	**663.3**	338,738,329	677.5
Treasury shares par value (Note 26)	**20,154,532**	**40.3**	13,055,402	26.1
Total	**351,793,731**	**703.6**	351,793,731	703.6

In 2011 the Company issued 156,839,759 new shares to the Subsea 7 Inc. shareholders in consideration for all of the issued Subsea 7 Inc. shares. The fair value of each newly issued share was $25.19, resulting in an aggregate market value of shares issued of $4.0 billion.

26. Treasury shares

The summary of treasury shares represents the purchase of the Company's common shares at the market price on the date of purchase and the movements are shown in the table below:

For the period	2012 31 Dec Number of shares	2012 31 Dec in $ millions	2011 31 Dec Number of shares	2011 31 Dec in $ millions
At period beginning	**13,055,402**	**278.5**	11,014,762	209.2
Acquired through business combination	**–**	**–**	3,000,343	75.6
Shares reissued to convertible loan note holders (Note 29)	**–**	**–**	(2,512,135)	(46.6)
Shares repurchased	**8,567,073**	**200.0**	2,512,135	60.0
Shares reissued relating to share-based payments	**(1,467,943)**	**(34.6)**	(959,703)	(19.7)
Balance at period end	**20,154,532**	**443.9**	13,055,402	278.5

Consisting of:		
Common shares held as treasury shares by a subsidiary	**17,662,188**	10,403,599
Common shares held as treasury shares by employee benefit trusts	**2,492,344**	2,651,803
Total	**20,154,532**	13,055,402

At the period end, the Group held 5.0% (2011: 3.0%) of the total number of issued shares as treasury shares. These shares were owned as treasury shares through Subsea 7 S.A.'s indirect subsidiary Subsea 7 Investing (Bermuda) Limited. A further 1,748,500 (2011: 914,000) common shares were held by an employee benefit trust to satisfy performance shares under the Group's 2009 Long-term Incentive Plan and 743,844 (2011: 1,737,803) shares were held in a separate employee benefit trust to support the restricted stock award plan and other specified stock option awards.

27. Non-controlling interests

For the period (in $ millions)	2012 31 Dec	2011 31 Dec
At period beginning	**51.5**	56.8
Share of net income for the period	**16.8**	27.0
Dividends	**(19.5)**	(31.4)
Acquired by the Group	**(5.1)**	(0.9)
Exchange differences	**0.1**	–
At period end	**43.8**	51.5

The Group's respective interest in subsidiaries which are not wholly owned were as follows:

As at	2012 31 Dec %	2011 31 Dec %
Sonamet Industrial SA	**55.0**	55.0
Sonacergy – Servicos E Construcoes Petroliferas Lda	**55.0**	55.0
Setemares Angola, Limitada	**49.0**	49.0
Globestar Engineering Company (Nigeria) Limited	**98.8**	98.8
Subsea 7 Mexico S de RL de CV	**52.0**	52.0
Naviera Subsea 7 S de RL de CV	**49.0**	49.0
Servicos Subsea 7 S de RL de CV	**52.0**	52.0

During 2012, the Group purchased the 50% non-controlling interest in Acergy Havila Limited, the 25% non-controlling interest of Engineering Subsea Solutions Limited and the 25% non-controlling interest of SES – Subsea Engineering Solutions, Inc. In addition, the Group sold its 75% interest in SES Engineering (Shanghai) Co. Ltd. The previous interests held were as follows:

As at	2011 31 Dec %
Acergy Havila Limited	50.0
Engineering Subsea Solutions Limited	75.0
SES – Subsea Engineering Solutions, Inc.	75.0
SES Engineering (Shanghai) Co. Ltd.	75.0

28. Borrowings

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
$500 million 2.25% convertible loan notes due 2013	**481.1**	458.1
$275 million 3.5% convertible loan notes due 2014	**275.8**	276.4
$700 million 1.0% convertible loan notes due 2017	**620.8**	–
Seven Havila loan	**157.7**	158.9
Total	**1,535.4**	893.4
Consisting of:		
Non-current portion of borrowings	**1,040.9**	880.5
Current portion of borrowings	**494.5**	12.9
Total	**1,535.4**	893.4

Commitment fees expensed during the period in respect of unused lines of credit were $3.9 million (2011: $4.4 million).

Facilities

The multi-currency revolving credit and guarantee facility ('the $600 million facility')

Up to 26 October 2012, the Group had a $1 billion facility which was agreed with a number of banks and was available for the issuance of guarantees or a combination of guarantees and cash drawings, subject to a $500 million sub-limit for cash drawings.

On 26 October 2012, the Group cancelled $400 million of the outstanding $500 million sub-limit available for cash drawings. The facility is guaranteed by Subsea 7 S.A., Class 3 Shipping Limited, Subsea 7 Shipping Limited, Subsea 7 Treasury (UK) Limited, Subsea 7 Limited and Subsea 7 Offshore Resources Limited. Final maturity is 10 August 2015. However, in accordance with the terms of the agreement, performance guarantees can be issued with up to 78 months duration up to one month prior to the final maturity date of the facility, subject to the Group providing cash cover for any guarantees outstanding following the final maturity date.

Interest on the facility is payable at LIBOR plus a margin which is linked to the Group's leverage, measured as the ratio of net debt to Adjusted EBITDA (see Additional Information on page 103), and which may range from 1.75% to 2.75% per year. The fee applicable for guarantees is linked to the same ratio of net debt to Adjusted EBITDA and may range from 1.75% to 2.75% per year in respect of financial guarantees and 0.88% to 1.38% in respect of performance guarantees. The margin and guarantee fee are reset quarterly in line with changes in the Group's leverage.

Seven Havila loan

In October 2008, Acergy Havila Limited entered into a loan facility of NOK 920 million ($164.9 million) with Eksportfinans. This loan facility was supported by a guarantee and additional facility provided by DNB ('DNB facility') capped at NOK 978 million ($175.3 million). The amount of the guarantee available under this agreement reduces in line with the repayment of the Eksportfinans loan. As this loan reduces an additional loan totalling NOK 109 million ($19.5 million) is available at defined future dates within the facility. The final termination date of the DNB facility is no later than 28 February 2021.

A first priority mortgage on the vessel has been provided as security on the loan and DNB facility. A charter guarantee has been provided by Subsea 7 S.A. Interest on the drawn loan facility is at a fixed rate of 4.65% per year until 2016. Thereafter the rate will be set by reference to commercial interest rates. In addition a facility is available at NIBOR plus 2.2% with guarantee commission payable at 1.65% per year.

On 14 December 2012, Acergy Havila Limited became a wholly owned subsidiary of the Group. Prior to this Acergy Havila Limited was a joint venture with Havila Shipping Pte Ltd.

Utilisation of the Facility and the Seven Havila loan

As at (in $ millions)	**2012 31 Dec Utilised**	**2012 31 Dec Unutilised**	**2012 31 Dec Total**	2011 31 Dec Utilised	2011 31 Dec Unutilised	2011 31 Dec Total
Cash loans	**157.0**	**116.5**	**273.5**	158.9	517.4	676.3
Guarantee facilities	**249.0**	**251.0**	**500.0**	293.0	207.0	500.0
Total	**406.0**	**367.5**	**773.5**	451.9	724.4	1,176.3

Bank overdraft and short-term lines of credit

Overdraft facilities consist of $8.9 million (2011: $8.6 million) of which $nil (2011: $nil) were drawn as at 31 December 2012.

Guarantee arrangements with joint ventures

SapuraAcergy Assets Pte Limited ('SAPL') is a joint venture between Nautical Essence Sdn. Bhd. (wholly owned by SapuraCrest Petroleum Berhad) and the Group.

In 2007 the respective parent companies issued a Charter Guarantee guaranteeing the Sapura 3000 charter payments from SapuraAcergy Sdn. Bhd. ('SASB') to SAPL. The limit of the guarantee is the sum of the outstanding amounts under the $240 million Facility Agreement of SAPL less $100 million. Any call under the guarantee will not result in a lump sum payment being made, but the guarantors will have to service the debt by way of charter payments due until the termination date of the loan, which is 2 February 2015.

SapuraAcergy Sdn. Bhd. is a joint venture between Nautical Essence Sdn. Bhd. (wholly owned by SapuraCrest Petroleum Berhad) and the Group. At 31 December 2012, SASB had a $111 million multi-currency facility for the financing of the Gumusut-Kakap project. Both the Group and SapuraCrest Petroleum Berhad had issued guarantees for 50% of the financing respectively. The facility consists of $51 million available for the issuance of performance bank guarantees, $30 million available for letters of credit, and two revolving credit facilities totalling $30 million.

At 31 December 2012 the amount drawn under bank guarantees was $1 million, $0.3 million was drawn under the letter of credit facility and $10 million was drawn under the $30 million revolving credit facilities.

29. Convertible loan notes

$500 million 2.25% convertible loan notes due 2013 ('2013 Notes')

On 11 October 2006 Subsea 7 S.A. issued $500.0 million in aggregate principal amount of 2.25% convertible loan notes due 2013. The issuance was completed on 11 October 2006 with the receipt of net proceeds after deduction of issuance related costs of $490.8 million. The issuance costs of $9.2 million have been split between the liability and equity components.

The 2013 Notes have an annual interest rate of 2.25% payable semi-annually in arrears on 11 April and 11 October of each year up to and including 2013. They were issued at 100% of their principal amount and unless previously redeemed, converted or cancelled will mature on 11 October 2013 at 100% of their principal amount. The 2013 Notes are admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

The noteholders were granted an option which allows them to convert the convertible loan notes into common shares with an initial conversion price of $24.05 per share equivalent to 20,790,021 common shares, or at the date of issue approximately 10.7% of Subsea 7 S.A.'s issued share capital (excluding treasury shares held) as at 11 October 2006. All $500.0 million of the 2013 Notes remained outstanding as at 31 December 2012 with a conversion price at that date of $21.54 (2011: $22.37) per share following the payment of the dividends since issuance, equivalent to 23,212,628 (2011: 22,351,363) common shares, or approximately 7.0% (2011: 6.6%) of the Group's issued share capital (excluding treasury shares held) as at 31 December 2012. The conversion price will continue to be adjusted in line with the 2013 Notes' terms and conditions including payment of dividends.

There is also an option for the Company to call the 2013 Notes after 25 October 2010, if the price of the common shares exceeds 130% of the conversion price for a specified period.

The following is a summary of certain other terms and conditions that apply to the 2013 Notes:

- the 2013 Notes are unsecured but contain a negative pledge provision which restricts encumbrances or security interests on current and future property or assets to ensure that the convertible notes will rank equally with other debt issuance;
- a cross default provision subject to a minimum threshold of $10.0 million and other events of default in connection with non-payment of the 2013 Notes;
- various undertakings in connection with the term of any further issuance of common shares, continuance of the listing of the shares and the 2013 Notes on recognised stock exchanges; and
- provisions for the adjustment of the conversion price in certain circumstances.

The net proceeds received from the issue of the 2013 Notes were split between the liability and equity components as follows. The equity component represents the fair value of the embedded option to convert the liability into equity of the Group.

(in $ millions)	2013 Notes
Principal value of convertible loan notes issued	500.0
Proceeds of issue (net of apportioned transaction costs)	490.8
Liability component at date of issue	(362.4)
Equity component	128.4
Deferred tax	(17.7)
Transfer to equity reserve	110.7

$275 million 3.5% convertible loan notes due 2014 ('2014 Notes')

As part of the Combination, the Group acquired $275 million in aggregate principal amount of 3.5% convertible loan notes due 2014.

The 2014 Notes have an annual interest rate of 3.5% payable semi-annually in arrears on 13 April and 13 October of each year up to and including 2014. They were issued at 100% of their principal amount and unless previously redeemed, converted or cancelled will mature on 13 October 2014 at 100% of their principal amount.

The noteholders were granted an option which allows them to convert the 2014 Notes into common shares with a conversion price on Combination of $16.88 per share equivalent to 16,291,469 common shares, or at the Combination date approximately 4.8% of the Group's issued share capital (excluding treasury shares held). All $275.0 million of the 2014 Notes remained outstanding as at 31 December 2012 with a conversion price at that date of $16.25 (2011: $16.88) per share following the payment of the dividends since issuance, equivalent to 16,923,077 (2011: 16,291,469) common shares, or approximately 5.1% (2011: 4.8%) of the Group's issued share capital (excluding treasury shares held) as at 31 December 2012. The 2014 Notes can be converted at the option of the noteholder up to the close of business ten banking days prior to the final maturity date. The conversion price will be adjusted in line with the 2014 Notes' terms and conditions.

29. Convertible loan notes *continued*

The following is a summary of certain other terms and conditions that apply to the 2014 Notes:

- the 2014 Notes are unsecured but contain a negative pledge provision which restricts encumbrances or security interests on current and future property or assets to ensure that the convertible notes will rank equally with other debt issuance;
- a cross default provision subject to a minimum threshold of $10.0 million and other events of default in connection with non-payment of the 2014 Notes;
- various undertakings in connection with the term of any further issuance of common shares, continuance of the listing of the shares and the 2014 Notes on recognised stock exchanges; and
- provisions for the adjustment of the conversion price in certain circumstances.

$700 million 1.00% convertible loan notes due 2017 ('2017 Notes')

During the year, Subsea 7 S.A. issued $700.0 million in aggregate principal amount of 1.00% convertible loan notes due 2017. The issuance was completed on 5 October 2012 with the receipt of net proceeds after deduction of issuance related costs of $697.9 million. The issuance costs of $2.1 million have been split between the liability and equity components.

The 2017 Notes have an annual interest rate of 1.00% payable semi-annually in arrears on 5 April and 5 October of each year up to and including 2017. They were issued at 100% of their principal amount and unless previously redeemed, converted or cancelled will mature on 5 October 2017 at 100% of their principal amount.

The noteholders were granted an option which allows them to convert the convertible loan notes into common shares with an initial conversion price of $30.10 per share equivalent to 23,255,814 common shares, or at the date of issue approximately 7.0% of Subsea 7 S.A.'s issued share capital (excluding treasury shares held) as at 5 October 2012 and 31 December 2012. All $700.0 million of the 2017 Notes remained outstanding as at 31 December 2012 with a conversion price at that date of $30.10 per share. The conversion price will continue to be adjusted in line with the 2017 Notes' terms and conditions including payment of dividends.

There is also an option for the Company to call the 2017 Notes on or after 26 October 2015 if the price of the common shares exceeds 130% of the conversion price for a specified period or at any time provided that 90% or more of the 2017 Notes have been redeemed or converted into shares.

The following is a summary of certain other terms and conditions that apply to the 2017 Notes:

- the 2017 Notes are unsecured but contain a negative pledge provision which restricts encumbrances or security interests on current and future property or assets to ensure that the convertible notes will rank equally with other debt issuance;
- a cross default provision subject to a minimum threshold of $25.0 million and other events of default in connection with non-payment of the 2017 Notes;
- various undertakings in connection with the term of any further issuance of common shares and continuance of the listing of the shares; and
- provisions for the adjustment of the conversion price in certain circumstances.

The net proceeds received from the issue of the 2017 Notes were split between the liability and equity components as follows. The equity component represents the fair value of the embedded option to convert the liability into equity of the Group.

(in $ millions)	2017 Notes
Principal value of convertible loan notes issued	700.0
Proceeds of issue (net of apportioned transaction costs)	697.9
Liability component at date of issue	(617.3)
Transfer to equity reserve	80.6

$229 million 2.8% convertible loan notes due 2011 ('2011 Notes')

As part of the Combination, the Group acquired $229 million in aggregate principal amount of 2.8% convertible loan notes due 2011.

The 2011 Notes had an annual interest rate of 2.8% payable semi-annually in arrears up to 6 June 2011.

On 11 January 2011, the Group issued a change of control notice relating to the 2011 Notes. As a result of this change of control, noteholders could exercise their conversion rights as provided in the note conditions or could exercise their right to require redemption of their notes.

On 17 March 2011 the Group announced that at the expiry of the change of control notice period, redemption notices for $0.3 million (par value) of the outstanding notes were received. These notes were repaid at par, plus accrued interest, on 29 March 2011.

On 31 May 2011 holders of $62.1 million (par value) of the 2011 Notes filed their conversion notice for their notes to be converted into common shares of the Company. As a result, a total of 2,512,135 common shares (as detailed in Note 26 'Treasury shares') in the Company were delivered to noteholders on 6 June 2011. These shares were delivered from existing shares held in treasury. Fractional entitlements were cash settled.

The remaining $166.6 million (par value) of 2011 Notes were redeemed at their accreted principal amount of $168.9 million on 6 June 2011; the final maturity date.

Acquired convertible loan notes

On Combination the components of the convertible loan notes acquired that exhibit characteristics of a liability were recognised as a liability in the Consolidated Balance Sheet. The fair value of the liability components were determined using a market rate for equivalent non-convertible loan notes. The acquisition date fair value of each convertible note less the fair value of the associated liability was allocated to the conversion option which is recognised in shareholders' equity as follows:

(in $ millions)	2011 Notes	2014 Notes
Fair value of convertible loan notes acquired	252.0	444.5
Fair value of liability components at the acquisition date	(230.4)	(276.6)
Equity components	21.6	167.9

All convertible loan notes

The movement in the liability components of the convertible notes was as follows:

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec
At period beginning	**734.5**	435.3
Notes acquired (including accrued interest)	**–**	509.6
Notes issued	**617.3**	–
Notes converted	**–**	(63.3)
Interest held in accruals	**(1.7)**	(1.8)
Notes redeemed	**–**	(166.8)
Interest charged (Note 9)	**48.5**	45.3
Interest paid	**(20.9)**	(23.8)
At period end	**1,377.7**	734.5

The interest charged in the period is calculated by applying effective rates of: 2011 Notes: 1.4%, 2013 Notes: 7.4%, 2014 Notes: 3.3%, 2017 Notes: 3.5%.

The movement in the equity components of the convertible notes was as follows:

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec
At period beginning	**278.6**	110.7
Notes acquired	**–**	189.5
Notes issued	**80.6**	–
Reclassification of equity component of convertible notes redeemed or converted in period	**–**	(21.6)
At period end	**359.2**	278.6

30. Other non-current liabilities

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Accrued salaries and benefits	**1.8**	1.2
Loan from non-controlling interest (Note 36)	**–**	18.5
Other	**7.2**	11.2
Total	**9.0**	30.9

31. Trade and other liabilities

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Accruals	**981.3**	760.3
Trade payables	**161.9**	214.4
Current amount due to associates and joint ventures (Note 17)	**4.2**	–
Accrued salaries and benefits	**173.2**	180.7
Withholding taxes	**12.1**	7.0
Interest payable	**–**	0.3
Other taxes payable	**101.2**	34.9
Other current liabilities	**18.1**	21.3
Total	**1,452.0**	1,218.9

32. Provisions

For the period (in $ millions)	Legal	Decommissioning	Restructuring	Other	Total
At 1 December 2010	9.0	2.1	13.0	14.4	38.5
Recognised on business combination	3.0	13.5	–	–	16.5
Additional provision in the period	0.8	5.2	–	27.5	33.5
Utilisation of provision	(1.6)	(2.4)	(11.7)	(3.4)	(19.1)
Unused amounts released during the period	(0.7)	(0.8)	–	(1.4)	(2.9)
Exchange differences	(0.1)	(0.5)	–	(1.5)	(2.1)
At 31 December 2011	10.4	17.1	1.3	35.6	64.4
Additional provision in the year	10.7	1.9	–	10.9	23.5
Utilisation of provision	(0.2)	(0.4)	(1.3)	(21.8)	(23.7)
Unused amounts released during the year	(6.7)	(0.2)	–	(7.0)	(13.9)
Exchange differences	(0.5)	(0.1)	–	0.3	(0.3)
At 31 December 2012	**13.7**	**18.3**	**–**	**18.0**	**50.0**

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Consists of:		
Non-current provisions	**38.2**	22.8
Current provisions	**11.8**	41.6
Total	**50.0**	64.4

The legal provision comprises a number of claims made against the Group. These include employee disputes, personal injury cases and lease disputes, where the timing of resolution is uncertain.

The decommissioning provision is in relation to the obligation to remove items of property, plant and equipment from leased vessels at the end of their charter period. The costs related to the provision are expected to be incurred in the year the leases cease which ranges from 2013 to 2017.

The restructuring provision arose as a result of the Combination. This provision was fully utilised during the year.

The other provisions mainly relate to a provision for costs related to an agency termination agreement, a provision for costs related to the sale of *Acergy Falcon,* provisions for tax claims and loss provisions on day-rate contracts.

33. Commitments and contingent liabilities

Commitments

These consist of:

- commitment to purchase property, plant and equipment from external suppliers as at 31 December 2012 for $299.5 million (2011: $403.4 million);
- operating lease commitments as indicated in Note 34 ‘Operating lease arrangements’; and
- a loan facility to the Group’s joint venture Seaway Heavy Lifting of an amount up to $10 million.

Contingent liabilities

Between 2009 and 2011, the Group’s Brazilian businesses were audited and formally assessed for ICMS and federal taxes (import duty) by the Brazilian State and Federal tax authorities. The amount assessed including penalties and interest as at 31 December 2012 amounted to BRL 545.8 million ($261.9 million). At 31 December 2011 the amount assessed including penalties and interest amounted to BRL 478.2 million ($257.6 million). The Group has challenged these assessments. As a result of the Combination, in line with IFRS 3 ‘Business Combinations’, a contingent liability of $9.3 million was recognised as at 7 January 2011 in respect of claims made against Subsea 7 Brasil Serviços Ltda, equivalent to $7.6 million as at 31 December 2012 (2011: $8.5 million), however, no further provision has been made as the Group does not believe that likelihood of payment is probable.

A summary of the contingent liabilities for ICMS and federal taxes is as follows:

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec	**2012 31 Dec**	2011 31 Dec
	Contingent liability		Contingent liability recognised	
At period beginning	**257.6**	79.2	**8.5**	–
Contingent liability from business acquisition	**–**	93.1	**–**	9.3
New assessments (including effect of interest rate changes)	**32.5**	99.5	**–**	–
Exchange differences	**(28.2)**	(14.2)	**(0.9)**	(0.8)
At period end	**261.9**	257.6	**7.6**	8.5

In 2007 and 2008, Subsea 7 Brasil Serviços Ltda received two notifications from the Federal Audit Court of Brazil alleging overbilling related to services rendered in the construction and installation of submarine pipelines. These notifications amounted to BRL 109.3 million ($52.6 million). In line with IFRS 3, a contingent liability of $20.3 million was recognised as at 7 January 2011, equivalent to $16.4 million as at 31 December 2012 in respect of these notifications. The timing and amount of any cash outflow is uncertain.

In 2010, the Subsea 7 Inc. group received a number of claims from Rio de Janeiro State Treasury in relation to alleged errors in magnetic tax filing files. The claims and fines amounted to BRL 17.0 million ($8.2 million). The cases were all progressed during 2012 but it is not clear when they will be resolved. In line with IFRS 3, a contingent liability of $2.8 million was recognised in relation to these claims as at 7 January 2011, equivalent to $2.3 million as at 31 December 2012.

A further $3.3 million of contingent liabilities was recognised as at 7 January 2011 which was updated to $1.6 million as at 31 December 2012 in relation to several other smaller claims.

Contingent liabilities recognised in the Consolidated Balance Sheet were as follows:

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec
At period beginning	**31.3**	–
Contingent liability recognised in business combination	**–**	35.7
Contingent liability subsequently recorded as provision	**–**	(1.3)
Exchange differences	**(3.5)**	(3.1)
At period end	**27.8**	31.3

In the course of business, the Group becomes involved in contract disputes from time-to-time due to the nature of its activities as a contracting business involved in several long-term projects at any given time. The Group records provisions to cover the expected risk of loss to the extent that negative outcomes are likely and reliable estimates can be made. However, the final outcomes of these contract disputes are subject to uncertainties as to whether or not they develop into a formal legal action and therefore the resulting liabilities may exceed the liability it anticipates.

Furthermore, the Group is involved in legal proceedings from time-to-time incidental to the ordinary conduct of its business. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is reasonably possible that the final resolution of any litigation could require the Group to make additional expenditures in excess of reserves that it may establish. In the ordinary course of business, various claims, litigation and complaints have been filed against the Group in addition to those specifically referred to above. Although the final resolution of any such other matters could have a material effect on its operating results for a particular reporting period, the Group believes that it is not probable that these matters would materially affect its consolidated financial position.

34. Operating lease arrangements

The Group as lessee

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
Payments made under operating leases	**338.6**	247.7

The total operating lease commitments as at 31 December 2012 were $1,030.7 million (2011: $868.8 million). These consisted of charter hire obligations towards certain construction support, diving support, survey and inspection vessels of $739.4 million (2011: $613.2 million). The remaining obligations related to office facilities and equipment as at 31 December 2012 of $291.3 million (2011: $255.6 million).

The Group's outstanding lease commitments fall due as follows:

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Within one year	**310.4**	296.0
Years two to five inclusive	**559.8**	505.2
After five years	**160.5**	67.6
Total	**1,030.7**	868.8

34. Operating lease arrangements *continued*

The following renewal options have been excluded from the outstanding commitments:

- *Acergy Viking* – ten options consisting of one option for 18 months, one option for two years and eight options for one year each.
- *Skandi Acergy* – four options consisting of two options for two years each and two options for one year each.
- *Skandi Neptune* – three options for one year each.
- *Subsea Viking* – one option for two years.
- *Normand Seven* – five options for one year each.
- *Normand Subsea* – four options for one year each.
- *Normand Oceanic* – three options for one year each.
- *Seven Viking* – one option for three years.
- *Skandi Seven* – two options consisting of one option for one year and one option for two years.
- *Skandi Skansen* – two options for one year each.

35. Financial instruments

Derivative financial instruments recognised in the Consolidated Balance Sheet were as follows:

(in $ millions)	**31 Dec 2012 Assets**	**31 Dec 2012 Liabilities**	**31 Dec 2012 Total**	31 Dec 2011 Assets	31 Dec 2011 Liabilities	31 Dec 2011 Total
Non-current						
Forward foreign exchange contracts	**20.5**	**(1.6)**	**18.9**	9.5	(10.0)	(0.5)
Interest rate swap	**–**	**(5.1)**	**(5.1)**	–	(4.9)	(4.9)
Total	**20.5**	**(6.7)**	**13.8**	9.5	(14.9)	(5.4)
Current						
Forward foreign exchange contracts	**53.5**	**(31.2)**	**22.3**	10.0	(25.3)	(15.3)
Dual currency deposits	**–**	**(0.4)**	**(0.4)**	–	(0.3)	(0.3)
Total	**53.5**	**(31.6)**	**21.9**	10.0	(25.6)	(15.6)

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 'Significant accounting policies'.

Financial risk management objectives

The Group monitors and manages the financial risks relating to its operations through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (consisting of currency risk and fair value interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using a variety of financial instruments to hedge these risk exposures. The use of financial instruments is governed by the Group's policies as reviewed by the Board of Directors and include policies on foreign exchange risk, interest rate risk, credit risk and the investment of excess liquidity.

The Group reviews compliance with policies and exposure limits on a regular basis and it does not enter into or trade financial instruments for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risks, including forward foreign exchange contracts to hedge the exchange rate risk arising on future revenues, operating costs and capital expenditure.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk in the year.

Foreign currency risk management

The Group conducts operations in many countries and, as a result, is exposed to currency fluctuations through generation of revenue and expenditure in the normal course of business. The Group has in place risk management policies that seek to limit the adverse effects of fluctuations in exchange rates on its financial performance.

The Group's reporting currency is the US Dollar. The majority of revenue and operating expenses are denominated in the functional currency of the individual subsidiaries operating in different Territories, namely:

- AFGOM – US Dollar, Euro, Angolan Kwanza and Nigerian Naira;
- APME – US Dollar, Australian Dollar and Singapore Dollar;
- Brazil – Brazilian Real and US Dollar; and
- NSC – US Dollar, British Pound Sterling, Norwegian Krone and Canadian Dollar.

The Group does not use derivative instruments to hedge the exposure to exchange rate fluctuations from its net investments in foreign subsidiaries.

Foreign currency sensitivity analysis

The Group considers that its principal currency exposure is to movements in the US Dollar against other currencies. The US Dollar is the Group's reporting currency, the functional currency of many of its subsidiaries and the currency of a significant volume of the Group's cash flows.

The Group performed a sensitivity analysis to indicate the extent to which net income and equity would be affected by changes in the exchange rate between the US Dollar and other currencies in which the Group transacts. The analysis is based on a strengthening of the US Dollar by 10% against each of the other currencies in which the Group has significant assets and liabilities at the end of each respective period. A movement of 10% reflects a reasonably possible sensitivity when compared to historical movements over a three to five year timeframe. The Group's analysis of the impact on net income in each year is based on monetary assets and liabilities in the Consolidated Balance Sheet at the end of each respective year.

The Group's analysis of the impact on equity includes the impacts on the translation reserve in respect of inter-company balances that form part of the net investment in a foreign operation and the hedging reserve in respect of designated hedges in addition to net income movements. The amounts disclosed have not been adjusted for the impact of taxation.

A 10% increase in the US Dollar exchange rate against other currencies in which the Group transacts would increase net foreign currency exchange gains reported in other gains and losses by $16.8 million (2011: reduction of $27.5 million). The impact on equity would be a reduction in reported net assets of $60.3 million (2011: $156.7 million).

Forward foreign exchange contracts

The Group primarily enters into forward foreign exchange contracts with maturities of up to five years, to manage the risk associated with transactions with a foreign exchange exposure risk. These transactions consist of highly probable cash flow exposures relating to revenue, operating expenditure and capital expenditure.

The following table details the forward foreign exchange contracts outstanding as at the balance sheet date:

As at 31 December 2012

	Foreign currency value by contract maturity				Fair value by contract maturity (in $ millions)	
	Buy		Sell		Maturity	
	< 1 Year	1-5 Years	< 1 Year	1-5 Years	< 1 Year	1-5 Years
British Pound Sterling	**167.7**	**46.4**	**130.0**	**–**	**20.7**	**5.3**
Canadian Dollar	**–**	**–**	**2.5**	**–**	**–**	**–**
Danish Krone	**374.1**	**30.9**	**68.7**	**–**	**1.2**	**–**
Euro	**300.5**	**35.9**	**27.0**	**–**	**(11.3)**	**(0.6)**
Norwegian Krone	**391.9**	**780.3**	**876.4**	**–**	**8.0**	**2.0**
Singapore Dollar	**5.1**	**–**	**9.9**	**–**	**–**	**–**
US Dollar	**69.5**	**2.6**	**388.3**	**313.5**	**3.7**	**12.2**
Total					**22.3**	**18.9**

As at 31 December 2011

	Foreign currency value by contract maturity				Fair value by contract maturity (in $ millions)	
	Buy		Sell		Maturity	
	< 1 Year	1-5 Years	< 1 Year	1-5 Years	< 1 Year	1-5 Years
Australian Dollar	–	–	0.2	–	–	–
British Pound Sterling	153.5	92.6	65.0	–	(6.1)	8.7
Canadian Dollar	54.9	–	–	–	0.4	–
Danish Krone	150.9	36.7	5.8	–	(0.3)	(0.1)
Euro	232.3	138.3	–	–	(4.0)	(6.9)
Norwegian Krone	769.4	161.7	223.4	–	0.3	0.4
Singapore Dollar	–	–	3.8	–	–	–
US Dollar	64.7	9.9	376.8	212.5	(5.6)	(2.6)
Total					(15.3)	(0.5)

35. Financial instruments *continued*

Hedge accounting

Included in the tables on page 87 are the following outstanding forward foreign exchange contracts which are designated as hedging instruments as at the reporting date:

As at 31 December 2012

	Foreign currency value by contract maturity				Fair value by contract maturity (in $ millions)	
	Buy		Sell		Maturity	
	< 1 Year	1-5 Years	< 1 Year	1-5 Years	< 1 Year	1-5 Years
British Pound Sterling	**16.3**	**4.2**	**–**	**–**	**(0.1)**	**(0.2)**
Danish Krone	**73.7**	**27.0**	**–**	**–**	**–**	**–**
Euro	**70.3**	**22.2**	**–**	**–**	**(3.6)**	**(1.2)**
Norwegian Krone	**264.9**	**170.1**	**–**	**–**	**1.5**	**(0.1)**
US Dollar	**30.2**	**2.6**	**385.3**	**313.5**	**3.6**	**12.1**
Total					**1.4**	**10.6**

As at 31 December 2011

	Foreign currency value by contract maturity				Fair value by contract maturity (in $ millions)	
	Buy		Sell		Maturity	
	< 1 Year	1-5 Years	< 1 Year	1-5 Years	< 1 Year	1-5 Years
British Pound Sterling	18.3	2.3	–	–	0.9	0.1
Danish Krone	40.4	36.7	–	–	–	(0.1)
Euro	47.3	122.2	–	–	(3.1)	(7.1)
Norwegian Krone	213.1	122.5	–	–	0.2	–
US Dollar	35.8	9.9	334.5	212.5	(5.6)	(2.5)
Total					(7.6)	(9.6)

Revenue hedging

The Group hedges some revenues which are forecast to be earned in currencies other than the functional currency of the contracting entity. At the reporting date the main such transactions are for US Dollar revenues. The Consolidated Income Statement is impacted when the services are performed by the Group and the related receivable is consequently realised. The hedging reserve balance relating to revenue hedging at 31 December 2012 was a loss of $5.7 million (2011: loss of $19.6 million) arising on hedges maturing on or before 31 July 2015. There was no significant difference between the period of cash flow and that of Consolidated Income Statement impact.

Operating expenses hedging

The Group hedges some operating expenses which are forecast to be incurred in currencies other than the functional currency of the operating entity. At the reporting date the main such transactions are vessel charter costs and project expenses in NOK and US Dollars. The Consolidated Income Statement is impacted when the supplier performs the underlying service and the related liability is consequently recognised. At 31 December 2012, the hedging reserve balance relating to hedges of operating expenses is a gain of $10.4 million (2011: $8.3 million) arising on hedges maturing on or before 31 March 2015. There is no material difference between the period of the cash flow and that of the Consolidated Income Statement impact.

Capital expenditure hedging

The Group hedges some capital expenditures which are forecast to be incurred in currencies other than the functional currency of the asset owning entity. At the reporting date the main transaction was a new-build vessel. The Group's policy is to adjust, at initial recognition, the carrying amount of the fixed asset. The impact on the Consolidated Income Statement is in accordance with the depreciation schedule of the related fixed assets. The hedging reserve balance at 31 December 2012 relating to capital expenditure hedges is a loss of $4.6 million (2011: loss of $11.2 million) arising on hedges maturing on or before 30 April 2014. The impact on the Consolidated Income Statement is expected to occur linearly over 22 years from 2014.

The effectiveness of foreign exchange hedges

The Group documents its assessment of whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. The Group assesses the effectiveness of foreign exchange hedges based on changes in fair value attributable to changes in spot prices; changes in fair value due to changes in the difference between the spot price and the forward price are excluded from the assessment of ineffectiveness and are recognised directly in the Consolidated Income Statement.

The cumulative effective portion of changes in the fair value of derivatives is deferred in equity within 'other reserves' as hedging reserves. The resulting cumulative gains or losses will be reclassified to the Consolidated Income Statement upon the recognition of the underlying transaction or the discontinuance of a hedging relationship. Movements in respect of effective hedges are detailed in the Consolidated Statement of Changes in Equity.

The gains or losses relating to the ineffective portion of cash flow hedges are recognised in the Consolidated Income Statement and the net amount recognised for the year was $nil (2011: loss of $0.2 million).

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges as follows:

For the period (in $ million)	**2012 31 Dec**	2011 31 Dec
As at period beginning	**(22.5)**	(15.7)
Gains/(losses) on the effective portion of derivatives deferred to equity:		
capital expenditure hedging	**17.7**	(11.9)
revenue hedging	**3.3**	8.3
operating expenses hedging	**(1.5)**	2.8
income tax losses recognised in equity	**(6.0)**	(2.3)
Cumulative deferred losses/(gains) transferred to Consolidated Income Statement (see below):		
revenue hedging	**2.4**	(2.9)
operating expenses hedging	**(1.4)**	(1.3)
Cumulative deferred gains transferred to initial carrying amount:		
capital expenditure hedging	**8.1**	0.5
Balance at period end	**0.1**	(22.5)

Cumulative gains/(losses) transferred from the hedging reserve to the Consolidated Income Statement

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec
Cumulative deferred (losses)/gains recognised in revenue	**(4.4)**	3.3
Cumulative deferred gains recognised in operating expenses	**1.1**	0.9
Cumulative deferred gains recognised in other gains and losses	**2.3**	–
Total	**(1.0)**	4.2

No amount was transferred to the Consolidated Income Statement in respect of forecast transactions no longer expected to occur (2011: loss of $0.3 million).

Interest rate risk management

The Group places surplus funds in the money markets to generate an investment return for a range of maturities (generally less than six months) ensuring a high level of liquidity and reducing the credit risk associated with the deposits. Changes in the interest rates associated with these deposits will impact the return generated.

The Group uses interest rate swaps to manage its exposure to interest rate risk. At 31 December 2012, the Group had entered into one contract on 17 September 2009, effective 28 September 2009, which matures on 28 September 2016 for a notional amount of $50 million. The Group has swapped a floating rate based on LIBOR to a fixed rate of 3.3%. As at 31 December 2012, a mark-to-market loss of $5.1 million (2011: $4.9 million) was recognised in the Consolidated Balance Sheet. Movements in fair value are recognised in the Consolidated Income Statement.

Interest rate sensitivity analysis

Interest on the facilities discussed in Note 28 'Borrowings' is payable at LIBOR plus a margin which is linked to the ratio of net debt to Adjusted EBITDA (see Additional Information on page 103) and ranges from 0.8% to 1.9% per year. As at 31 December 2012 the Group had significant cash deposits leaving it in net cash position giving a margin of 0.8% on any borrowings and it would have required a significant reduction in Adjusted EBITDA during period 2012 to move the Group to the highest threshold.

The Group's income and equity balances are not significantly impacted by changes to interest rates.

Credit risk management

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of transacting with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The credit rating is supplied by independent rating agencies. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually and monitored daily. In respect of its clients and suppliers the Group uses credit ratings as well as other publicly available financial information and its own trading records to rate its major counterparties.

The table below shows the carrying value of amounts on deposit (excluding cash and cash equivalents available on demand) at the balance sheet date using the Standard and Poor's credit rating.

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Counterparties rated AAA	**3.0**	99.0
Counterparties rated AA- to AA+	**96.6**	10.0
Counterparties rated A- to A+	**583.0**	165.0

35. Financial instruments *continued*

Net trade receivables (Note 21 'Trade and other receivables') arise from a large number of clients, spread across various geographical regions. Ongoing credit evaluation is performed on the recoverability of trade receivables. The following table classifies outstanding balances into three debtor categories:

As at	2012 31 Dec Debtor category percentage	2011 31 Dec Debtor category percentage
National oil and gas companies	**8%**	17%
International oil and gas companies	**73%**	61%
Independent oil and gas companies	**19%**	22%
Total	**100%**	100%

National oil and gas companies are either partially or fully owned by or directly controlled by the government of any one country, whereas both international and independent oil and gas companies have a majority of public or private ownership. International oil and gas companies are generally greater in size and scope than independent oil and gas companies although the distinction between them ultimately relates to the way the company describes itself.

The following table details the ageing analysis for trade receivables:

As at 31 December 2012

(in $ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Trade receivables	**644.0**	**147.1**	**4.3**	**19.9**	**–**	**815.3**
Trade receivables considered impaired	**0.2**	**–**	**0.4**	**2.4**	**–**	**3.0**
Total trade receivables	**644.2**	**147.1**	**4.7**	**22.3**	**–**	**818.3**

As at 31 December 2011

(in $ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Trade receivables	380.7	100.7	67.7	–	–	549.1
Trade receivables considered impaired	–	0.9	1.4	2.6	–	4.9
Total trade receivables	380.7	101.6	69.1	2.6	–	554.0

Trade receivables balances beyond the one month ageing category in the table above are considered past due but not impaired. Trade receivables considered impaired are balances which are past due and considered not collectable.

The maximum exposure of the Group to credit-related loss of financial instruments is the aggregate of the carrying values of the financial assets as summarised on page 92.

Concentration of credit risk

The Group depends on certain significant clients. During the period four clients (2011: four clients) contributed to more than 10% of the Group's revenue. The contribution from these clients was $3.4 billion or 55% of total Group revenues (2011: $2.9 billion or 52%).

The five largest receivables balances by client as at 31 December are shown in the table below:

As at 31 December (in $ millions)

Counterparty	2012
Client A	**223.9**
Client B	**98.0**
Client C	**90.8**
Client D	**90.1**
Client E	**59.6**

As at 31 December (in $ millions)

Counterparty	2011
Client A	124.2
Client B	93.6
Client C	60.9
Client D	45.7
Client E	37.9

The client mix for outstanding accounts receivable balances in 2012 is not the same as 2011.

The Group does not have any significant credit risk exposure to any single counterparty as at 31 December 2012. The Group defines counterparties as having similar characteristics if they are related entities.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are primarily banks with high credit-ratings assigned by international credit-rating agencies. At period end, an insignificant amount of cash was held at a low credit-rating bank.

Liquidity risk management

The Group has a management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining what it believes are adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 28 'Borrowings' is a listing of undrawn facilities that the Group has at its disposal.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the payment can be required. The table consists of the principal cash flows:

As at 31 December 2012

(in $ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Trade payables	**126.4**	**35.5**	**–**	**–**	**–**	**161.9**
Convertible loan notes	**–**	**–**	**527.9**	**1,012.6**	**–**	**1,540.5**
Seven Havila loan	**–**	**10.2**	**11.1**	**83.0**	**110.0**	**214.3**
Current amounts due to associates and joint ventures	**–**	**4.2**	**–**	**–**	**–**	**4.2**
Total	**126.4**	**49.9**	**539.0**	**1,095.6**	**110.0**	**1,920.9**

As at 31 December 2011

(in $ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Trade payables	192.8	21.5	0.1	–	–	214.4
Convertible loan notes	–	–	20.9	805.5	–	826.4
Seven Havila loan	–	10.6	10.8	81.5	119.6	222.5
Loan from non-controlling interest	–	–	–	–	20.3	20.3
Total	192.8	32.1	31.8	887.0	139.9	1,283.6

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash outflows and (inflows) on the derivative instruments that settle on a net basis and the undiscounted gross outflows and (inflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the balance sheet date.

As at 31 December 2012

(in $ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Net settled:						
Foreign exchange forward contracts	**–**	**4.3**	**2.8**	**0.2**	**–**	**7.3**
Interest rate swap	**–**	**0.3**	**1.0**	**3.8**	**–**	**5.1**
Gross settled:						
Foreign exchange forward contract payments	**263.6**	**505.4**	**164.4**	**78.2**	**–**	**1,011.6**
Foreign exchange forward contract receipts	**(261.9)**	**(486.7)**	**(159.5)**	**(77.5)**	**–**	**(985.6)**
Total	**1.7**	**23.3**	**8.7**	**4.7**	**–**	**38.4**

As at 31 December 2011

(in $ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Net settled:						
Foreign exchange forward contracts	–	2.1	12.5	–	–	14.6
Interest rate swap	–	0.2	0.8	3.9	–	4.9
Gross settled:						
Foreign exchange forward contract payments	34.8	151.0	284.7	390.7	–	861.2
Foreign exchange forward contract receipts	(33.8)	(149.8)	(276.5)	(377.9)	–	(838.0)
Total	1.0	3.5	21.5	16.7	–	42.7

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

35. Financial instruments *continued*

Assumptions used in determining fair value of financial assets and liabilities

Restricted cash deposits

The carrying amounts of restricted cash deposits represent their fair value which is based on actual deposits held with financial institutions.

Net trade receivables

The fair value of trade receivables is based on their carrying value which is representative of outstanding amounts owing and takes into consideration any possible doubtful debts.

Borrowings – convertible loan notes

The fair value of the liability components of convertible loan notes is determined by matching the maturity profile of the note to market interest rates available to the Group. At the balance sheet date the interest rates available ranged from 2.1% to 3.7%.

Forward foreign exchange contracts

The fair value of outstanding forward foreign exchange contracts is 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 is calculated using quoted 3 month US Dollar LIBOR rates. At the balance sheet date the 3 month US Dollar LIBOR rate was 0.3%.

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

As at (in $ millions)	**2012 31 Dec Carrying amount**	**2012 31 Dec Fair value**	2011 31 Dec Carrying amount	2011 31 Dec Fair value
Financial assets				
Cash and cash equivalents	**1,287.9**	**1,287.9**	803.4	803.4
Restricted cash deposits	**–**	**–**	52.7	52.7
Financial assets at FVTPL				
Derivative instruments	**53.9**	**53.9**	17.3	17.3
Derivative instruments in designated hedge accounting relationships	**20.1**	**20.1**	2.2	2.2
Loans and receivables				
Net trade receivables (Note 21)	**815.3**	**815.3**	549.1	549.1
Non-current amounts due from associates and joint ventures (Note 17)	**21.7**	**21.7**	26.0	26.0
Current amounts due from associates and joint ventures (Note 17)	**51.4**	**51.4**	24.8	24.8
Finance lease receivables (Note 19)	**1.8**	**1.8**	2.7	2.7
Other receivables	**23.2**	**23.2**	13.3	13.3
Financial liabilities				
Financial liabilities at FVTPL				
Derivative instruments	**30.2**	**30.2**	21.1	21.1
Derivative instruments in designated hedge accounting relationships	**8.1**	**8.1**	19.4	19.4
Loans and receivables:				
Trade payables (Note 31)	**161.9**	**161.9**	214.4	214.4
Current amounts due to associates and joint ventures (Note 31)	**4.2**	**4.2**	–	–
Seven Havila loan (Note 28)	**157.7**	**157.7**	158.9	158.9
Borrowings – Convertible loan notes (Note 29)	**1,377.7**	**1,398.8**	734.5	759.6
Loan from non-controlling interest (Note 30)	**–**	**–**	18.5	18.5

The company 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).

The following table presents the financial instruments measured at fair value at the end of the reporting period:

Fair value As at (in $ millions)	**2012 31 Dec Level 2**	2011 31 Dec Level 2
Financial assets:		
Fair value through profit or loss	**53.9**	17.3
Derivative instruments in designated hedge accounting relationships	**20.1**	2.2
Financial liabilities:		
Fair value through profit or loss	**30.2**	21.1
Derivative instruments in designated hedge accounting relationships	**8.1**	19.4

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders.

The capital structure of the Group consists of debt, which includes borrowings disclosed in Note 28 'Borrowings', cash and cash equivalents and equity attributable to shareholders of the parent company, comprising issued capital, reserves and retained earnings.

The Group monitors capital on the basis of debt service ratio (net debt/Adjusted EBITDA) and debt volume (net debt/enterprise value). Net debt is calculated by the principal value of convertible loan note borrowings plus deferred revenue and operating lease arrangements, less cash and cash equivalents. Enterprise value is the market capitalisation plus net debt.

Debt service

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Principal value of convertible loan note borrowings	**1,475.0**	775.0
Seven Havila loan (Note 28)	**157.7**	158.9
Deferred revenue (Note 39)	**76.8**	210.7
Operating lease arrangements (Note 34)	**1,030.7**	868.8
Cash and cash equivalents	**(1,287.9)**	(803.4)
Net debt	**1,452.3**	1,210.0
Adjusted EBITDA (see Additional information on page 103)	**1,138.9**	1,003.3
Debt service ratio	**1.28x**	1.21x

Debt volume

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Market capitalisation	**7,878.6**	6,565.7
Net debt (as above)	**1,452.3**	1,210.0
Enterprise value	**9,330.9**	7,775.7
Debt volume	**15.6%**	15.6%

36. Related party transactions

Key management personnel

Key management personnel includes the Board of Directors and the Executive Management Team. The remuneration of these personnel is determined by the Compensation Committee.

Non-Executive Directors

Details of fees paid to Non-Executive Directors for the period are set out below:

Name	**Annual Fee $**	**Member of Audit Committee $**	**2012 31 Dec $**	2011 31 Dec $
Kristian Siem	**200,000**	**–**	**–**[(a)]	–[(a)]
Sir Peter Mason KBE	**125,000**	**–**	**125,000**	177,361[(c)]
Eystein Eriksrud	**105,000**	**6,000**	**88,557**[(d)]	–
Mel Fitzgerald	**–**	**–**	**–**[(b)]	–[(b)]
Dod Fraser	**105,000**	**6,000**	**111,000**	122,083[(c)]
Robert Long	**105,000**	**–**	**105,000**	105,000
Arild Schultz	**105,000**	**–**	**105,000**	105,000
Allen Stevens	**105,000**	**–**	**105,000**	105,000
Trond Westlie	**105,000**	**14,000**	**119,000**	130,928[(c)]

(a) Mr Siem's fee is included within payments to Siem Industries Inc. as detailed in 'Other related party transactions' on page 95.

(b) Mr Fitzgerald did not receive his annual fees in 2011 due to his continued employment with the Group until March 2011. His compensation for the period ended 31 December 2011 was £499,506 ($792,809) and this included base salary, bonus and benefits-in-kind. From April 2011 to December 2011, Mr Fitzgerald provided consultancy services to the Group totalling £559,583 ($888,163). Mr Fitzgerald resigned from the Board of Directors of Subsea 7 S.A. on 5 March 2012.

(c) In 2011, Sir Peter Mason KBE, Mr Fraser and Mr Westlie received a pro rata fee for the 13 months served.

(d) Mr Eriksrud was appointed on 15 March 2012; his fee for 2012 was calculated on a pro rata basis. In addition, Mr Eriksrud received NOK 85,000 ($15,239) for services in connection with the spin-off of Veripos Inc.

36. Related party transactions *continued*

Share options outstanding and shareholdings as at 31 December 2012 were as follows:

Share options

Name	Date of grant	Number of options	Exercise price	Date of expiry
Kristian Siem		–		
Sir Peter Mason KBE	21 Nov 2006	5,000	NOK 124.50	20 Nov 2016
Eystein Eriksrud		–		
Dod Fraser		–		
Robert Long		–		
Arild Schultz		–		
Allen Stevens		–		
Trond Westlie	12 Nov 2004	5,000	NOK 31.90	11 Nov 2014
	22 Nov 2005	5,000	NOK 67.75	21 Nov 2015
	21 Nov 2006	5,000	NOK 124.50	20 Nov 2016

Shareholdings

Name	Total Owned Shares
Kristian Siem[(a)]	–
Sir Peter Mason KBE	10,000
Eystein Eriksrud[(b)]	1,100
Dod Fraser	4,000
Robert Long	–
Arild Schultz	475,000
Allen Stevens	10,650
Trond Westlie	–

(a) As at 1 March 2013, Siem Industries Inc. which is a company controlled through trusts where Mr Siem and certain members his family are potential beneficiaries, owned 69,731,931 shares, representing 19.8% of issued shares.

(b) Mr Eriksrud is Deputy CEO of Siem Industries Inc. which, as at 1 March 2013, owned 69,731,931 shares representing 19.8% of issued shares.

Key management

The remuneration of key management personnel, excluding the Non-Executive Directors, during the period was as follows:

For the period ended (in $ millions)	**2012 31 Dec**	2011 31 Dec
Salaries and other short-term employee benefits	**8.7**	6.9
Termination benefits	**1.3**	–
Share-based payments	**3.2**	4.3
Post-employment benefits	**0.5**	0.5
Total	**13.7**	11.7

The compensation of the Chief Executive Officer ('CEO') for the period was $2.9 million (2011: $2.8 million) and included base salary, bonus, benefits-in-kind and pension contributions. This amount excludes the IFRS 2 'Share-based payments' charge for any incentive plans of which the CEO is a member.

Share options, performance and restricted shares outstanding and shareholdings as at 31 December 2012 were as follows:

Share options

Name	Date of Grant	Number of Options	Exercise Price	Date of expiry
Jean Cahuzac	13 Apr 2008	100,000	NOK 123.00	13 April 2018
Nathalie Louys	19 Mar 2006	10,000	$13.81	18 Mar 2016
	21 Nov 2006	4,500	$19.45	20 Nov 2016
	12 Mar 2008	8,000	$22.52	11 Mar 2018
Keith Tipson	22 Nov 2005	22,000	NOK 67.75	21 Nov 2015
	21 Nov 2006	24,500	NOK 124.50	20 Nov 2016
	12 Mar 2008	15,000	NOK 114.50	12 Mar 2018

Shares, performance shares and restricted shares

Name	Total performance shares[(a)]	Total restricted shares[(a)]	Total owned shares
Jean Cahuzac	165,000	–	74,858
Ricardo Rosa	35,000	–	–
John Evans	40,000	54,670	40,233
Nathalie Louys	38,000	–	–
Keith Tipson	64,500	–	13,836
Steve Wisely	30,000	38,624	29,854

(a) Total performance shares and restricted shares held represent the maximum award assuming all conditions are met.

Transactions with key management personnel

During the period, key management personnel were awarded the rights to 205,000 shares (2011: 60,000) under the 2009 Long-term Incentive Plan; refer to Note 37 'Share-based payments' for details of the plan.

Dividends and dividends-in-kind totalling $0.4 million (2011: $nil) were paid to key management personnel for directly held shareholdings.

Loans and trade receivables with related parties

As disclosed in Note 17 'Interest in associates and joint ventures', the Group has provided a loan to a joint venture entity at rates comparable to the commercial rates of interest amounting to $21.7 million (2011: $26.0 million). At 31 December 2012, the Group also had trade receivables due from associates and joint venture entities of $51.4 million (2011: $24.8 million).

In 2011, as disclosed in Note 30 'Other non-current liabilities', the Group received an $18.5 million loan from Havila Shipping PTE Limited to part fund the purchase of *Seven Havila.* Interest on the loan was based on six month NIBOR and is payable six months in arrears. The loan was settled as part of a transaction in 2012 to purchase the non-controlling interest in Acergy Havila Limited from Havila Shipping PTE Limited.

Trading transactions with joint ventures and associates

During the period, the Group entered into transactions with joint ventures and associates which are reported in Note 17 'Interest in associates and joint ventures' and are made on terms equivalent to those that prevail in arm's length transactions.

Other related party transactions

The Group is an associate of Siem Industries Inc. and is equity accounted for within its group accounts. Payments were made to Siem Industries Inc. in relation to the services of Group chairman Mr Siem and other services totalling $0.3 million (2011: $0.4 million). Dividends and dividends-in-kind totalling $58.7 million (2011: $nil) were paid to Siem Industries Inc.

Siem Offshore Inc. is an associate of Siem Industries Inc. and has Mr Eriksrud as its Chairman and Mr Siem as a board member. Purchases from subsidiaries of Siem Offshore Inc. relating to anchor handling costs and vessel charter costs, totalling $31.9 million were made during the period (2011: $21.4 million). As at 31 December 2012 the Group had an outstanding balance due to these companies of $0.4 million (2011: $1.4 million). In addition, during the period pre spin-off the Group provided Veripos services to subsidiaries of Siem Offshore Inc. totalling $0.2 million (2011: $0.4 million).

At the balance sheet date the Group had paid a subsidiary of Siem Offshore Inc. a deposit of $8.4 million relating to the purchase of *Seven Sisters.* This amount is presented within other receivables in Note 21 'Trade and other receivables'. The purchase of the vessel was completed in March 2013 (see Note 42 'Post balance sheet events' for further details).

DSND Bygg AS is ultimately controlled by Siem Industries Inc. Purchases from DSND Bygg AS in relation to the rental of office accommodation totalling $0.5 million (2011: $0.6 million) were made during the period, offset by receipts for office management services of $0.2 million (2011: $0.2 million).

Relationship Agreement

The Relationship Agreement between Subsea 7 Inc., Subsea 7 S.A. and Siem Industries Inc. expired on 20 December 2012. It provided for certain relationship arrangements between the parties, including:

- the nomination of up to two directors to the Board of Directors by Siem Industries Inc. provided the shareholding of Siem Industries Inc. met certain threshold levels; and
- restrictions on the number of Subsea 7 S.A. shares which could be acquired or sold by Siem industries Inc.

37. Share-based payments

The Group operates several share-based payment schemes, both equity-settled and cash-settled.

The following table summarises the compensation expense recognised in the Consolidated Income Statement during the period:

For the period (in $ millions)	2012 31 Dec	2011 31 Dec
Expense arising from equity-settled share-based payment transactions:		
2003 Plan	**0.2**	1.2
2009 Long-term Incentive Plan	**5.4**	3.0
Restricted Share Plan	**–**	0.1
Subsea 7 Inc. restricted stock award plan	**6.9**	10.9
Subsea 7 Inc. share option plans	**–**	0.1
Subsea 7 Inc. employee share purchase plans	**–**	0.3
Expense arising from cash-settled share-based payment transactions:		
2009 Executive Deferred Incentive Scheme	**0.8**	0.4
2010 Executive Deferred Incentive Scheme	**–**	0.5
2010 Long-term Incentive Plan – cash plan	**1.1**	0.9
Special Incentive Plan 2009	**3.9**	3.3
Special Incentive Plan 2012	**1.2**	–
Total	**19.5**	20.7

Equity-settled schemes

The Restricted Share Plan vested during 2011 and the Subsea 7 Inc. employee share purchase plans are closed to future award. The remaining schemes were:

2003 Plan

The Group operated a share option plan which was approved in April 2003 ('the 2003 Plan'). This plan included an additional option plan for key Directors and employees resident in France as a sub-plan (the 'French Plan'), and additional options which were granted under the Senior Management Incentive Plan. The Compensation Committee appointed by the Board of Directors administers these plans. Options were awarded at the discretion of the Compensation Committee to directors and key employees.

Options under the 2003 Plan (and therefore also under the French Plan) are exercisable for periods of up to ten years, at an exercise price not less than the fair market value per share at the time the option is granted. All such options had vested at 31 December 2012. The cost of these non-performance share options was recognised using the graded vesting attribution method. Share option exercises are satisfied by reissuing treasury shares. Furthermore, options are generally forfeited if the option holder leaves the Group under any circumstances other than due to the option holder's death, disability or retirement before his or her options are exercised.

No further share options will be granted under the 2003 Plan or the French Plan.

2009 Long-term Incentive Plan

The 2009 Long-term Incentive Plan ('2009 LTIP') was approved by the Company's shareholders at the Extraordinary General Meeting on 17 December 2009. The 2009 LTIP has a five-year term with awards being made annually. The aggregate number of shares subject to all awards which may be granted in any calendar year is limited to 0.5% of issued and outstanding share capital on 1 January of each such calendar year.

The 2009 LTIP is an essential component of the Group reward strategy, and was designed to place the Group on a par with competitors in terms of recruitment and retention abilities. The 2009 LTIP provides for share awards, which are earned after three years, based on certain performance conditions, and vest after at least three years.

Performance conditions are based on relative Total Shareholder Return ('TSR') against a specified comparator group of companies and are determined over a three-year period. The Group will have to deliver TSR above the median for any awards to vest. At the median level, only 30% of the maximum award will vest. If the actual ranked TSR position of Subsea 7 during the three year period, as converted to a percentage, is equal to or greater than 50% and below 90%, the vesting of the share award between 30% and 100% is determined by linear interpolation. The maximum award would only vest if the Group achieved top decile TSR ranking. In addition, individual award caps are in place. No senior executive or other employee may be granted shares under the 2009 LTIP in a single calendar year that have an aggregate fair market value in excess of 150%, in the case of senior executives, or 100%, in the case of other employees, of their annual base salary as of the first day of the year of award. Additionally, a holding requirement for senior executives applies. Senior executives must hold 50% of all awards that vest until they have built up a shareholding with a fair value of 150% of their annual base salary which must be maintained throughout their tenure.

During 2012, awards of 1,279,500 shares were made under the terms of the 2009 LTIP. In conjunction with this award 834,500 shares were transferred to an Employee Benefit Trust at the closing share price on Oslo Børs on 10 September 2012. Approximately 120 senior managers and key employees participate in the 2009 LTIP. Grants are determined by the Compensation Committee, which is responsible for operating and administering the plan.

The IFRS 2 'Share-based payments' fair value of each performance share granted under the 2009 LTIP is estimated as of the grant date using a Monte Carlo pricing model with weighted average assumptions as follows:

For the period	2012 31 Dec	2011 31 Dec
Weighted average fair value at grant date (in $)	**11.32**	11.65
Weighted average share price (in $)	**23.16**	22.40
Expected volatility	**39%**	41%
Expected life	**5 years**	5 years
Risk free rate	**1.3%**	1.8%

The expected life represents the maximum vesting period. The expected volatility over the expected life is estimated from the Company's historical volatility. For the 2012 award the expected dividend took into account the expected dividends over the three-year vesting period assuming no growth over the estimated dividend yield of 2.6% (2011: 0.0%).

Subsea 7 Inc. restricted stock award plan

Certain employees of the Group were awarded, prior to the Combination, a total of 1.7 million shares. On Combination these awards were replaced by Subsea 7 S.A. with 1.8 million restricted share awards, at the exchange ratio 1.065 replacement restricted share for each previously awarded restricted share. The shares had a fair value of $25.19 (NOK 151.3) per share equivalent to the market price on the Combination date. In accordance with IFRS 3 'Business Combinations' and IFRS 2 'Share-based payments', a proportion of this fair value was treated as consideration for the Combination; the remainder will be expensed over the remaining vesting period.

The awards will normally vest and shares will be issued or transferred to the employee subject to the employee remaining in employment with the Group until the vesting dates that are specified in the award certificate. 60% of the awards vested in 2012, and the remaining 40% of the awards will normally vest in 2014.

Awards will not attract any dividends or dividend equivalents prior to the delivery of shares. Participants will not have any voting rights in respect of the vested number of shares awarded prior to the delivery of the shares. All shares allotted under the share plan carry the same rights as any other issued common shares in the Company. US participants who receive awards are required to waive voting and dividend rights during the restricted period.

At 31 December 2012, 1,217,683 restricted shares had vested (2011: 264,726).

Subsea 7 Inc. share option plans

As part of the Combination, the Group replaced the share options previously issued by Subsea 7 Inc. All such share options have vested as at 31 December 2012.

Share options

Option activity for the 2003 Plan and Subsea 7 Inc. share option plans was as follows:

For the period	Number of options 2012 31 Dec	Weighted average exercise price in $ 2012 31 Dec[a]	Number of options 2011 31 Dec	Weighted average exercise price in $ 2011 31 Dec[a]
Outstanding at period beginning	**2,287,513**	**15.82**	2,767,841	15.00
Replaced on Combination with Subsea 7 Inc.	**–**	**–**	176,037	9.77
Reinstatement of lapsed options	**–**	**–**	86,200	6.83
Exercised	**(509,986)**	**13.93**	(663,375)	10.04
Forfeited	**(5,500)**	**22.30**	(15,075)	17.90
Expired	**(7,000)**	**10.66**	(64,115)	10.56
Outstanding at period end	**1,765,027**	**16.66**	2,287,513	15.82
Exercisable at the end of the period	**1,765,027**	**16.66**	2,091,824	15.17

(a) In 2012, the exercise prices of most outstanding share options were converted from US Dollars to NOK.

The weighted average exercise market price at exercise date of options exercised during the period was $23.77 (2011: $22.39).

The following table summarises information regarding share options outstanding as at 31 December 2012:

	Options outstanding		
Common shares (range of exercise prices)	Options outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price (in $)[a]
$17.01 – $26.16	**1,150,274**	**4.69**	**21.35**
$10.01 – $17.00	**266,028**	**2.93**	**12.10**
$3.01 – $10.00	**202,100**	**1.99**	**6.47**
$1.19 – $3.00	**146,625**	**0.43**	**2.17**
Total	**1,765,027**	**3.80**	**16.66**

(a) In 2012, the exercise prices of most outstanding share options were converted from US Dollars to NOK.

Financials

37. Share-based payments *continued*

Cash-settled schemes

2009 and 2010 Executive Deferred Incentive Schemes

These cash-settled schemes are closed to new awards. The 2009 Executive Deferred Incentive Scheme vested during the period and the 2010 Executive Deferred Incentive Scheme will vest during 2013, subject to service and performance conditions.

2010 Long-term Incentive Plan – cash plan

This cash-settled scheme is closed to new awards. All existing awards will vest during 2013, subject to service conditions.

Special Incentive Plan 2009

The Special Incentive Plan 2009 ('SIP 2009') is a cash-settled incentive plan designed to provide awards to selected executives and key employees. Awards under the SIP 2009 were in the form of a cash bonus, paid in April 2012, of between zero and twelve months' base salary, dependent on the Company's average share price as quoted on Oslo Børs between 1 January 2012 and 31 March 2012. No other performance criteria apply. All amounts which vested were paid during the period.

Special Incentive Plan 2012

In September 2012, the Company put in place the Special Incentive Plan 2012 ('SIP 2012'), a cash-settled incentive plan designed to provide awards to selected employees. Awards under the SIP 2012 are in the form of a cash bonus payable in September 2014. The plan guarantees to a pay a minimum of 25% of base salary. As well as the guaranteed incentive payment, employees could also receive a further payment of up to 25% of base salary, resulting in an overall maximum incentive payment of 50% of base salary. The share price must increase from $23.16 to $30.02 by the end of the performance period in order for maximum incentive opportunity to be realised. If the share price falls within this range, the amount of the additional incentive opportunity will be calculated on a straight-line basis. The Company's share price at the end of the performance period will be based on the average share price quoted on Oslo Børs between 1 June 2014 and 31 August 2014. There are no other performance conditions.

Recognised cash-settled share-based payment liability

The carrying amount of the liability relating to the cash-settled share-based payments as at 31 December 2012 was $4.4 million (2011: $9.9 million).

38. Retirement benefit obligations

The Group operates both defined contribution and defined benefit pension plans, depending on location, covering certain qualifying employees.

Contributions under the defined contribution pension plans are determined as a percentage of gross salary. The expense relating to these plans for the period was $56.1 million (2011: $46.4 million).

The Group operates both funded and unfunded defined benefit pension plans. The benefits under the defined benefit pension plans are based on years of service and salary levels at retirement age.

The amount included in the Consolidated Balance Sheet arising from the Group's obligations in respect of its defined benefit plans was as follows:

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Present value of defined benefit obligations	**(62.9)**	(57.4)
Fair value of assets in defined plans	**54.4**	41.3
Deficit in funded defined benefit plans	**(8.5)**	(16.1)
Present value of unfunded defined benefit obligation	**(14.6)**	(12.3)
Past service cost not yet recognised in Consolidated Balance Sheet	**–**	(0.7)
Net liability recognised in the Consolidated Balance Sheet	**(23.1)**	(29.1)
Presented as:		
Retirement benefit assets	**0.3**	0.3
Retirement benefit obligations	**(23.4)**	(29.4)
Total	**(23.1)**	(29.1)

Amounts recognised in the Consolidated Income Statement within operating expenses and administrative expenses in respect of these defined benefit plans were as follows:

Period ended 31 December 2012

(in $ millions)	Norway	United Kingdom	France	Total
Service cost	**1.0**	**0.1**	**1.0**	**2.1**
Interest cost	**0.9**	**1.2**	**0.5**	**2.6**
Expected return on plan assets	**(1.1)**	**(1.3)**	**–**	**(2.4)**
Past service cost	**–**	**–**	**(0.7)**	**(0.7)**
Settlements	**–**	**11.3**	**–**	**11.3**
Curtailment	**–**	**(2.6)**	**–**	**(2.6)**
Employee taxes and other expenses	**0.3**	**–**	**–**	**0.3**
Total	**1.1**	**8.7**	**0.8**	**10.6**

Period ended 31 December 2011

(in $ millions)	Norway	United Kingdom	France	Total
Service cost	1.1	0.3	1.0	2.4
Interest cost	1.1	1.4	0.5	3.0
Expected return on plan assets	(1.1)	(1.2)	–	(2.3)
Past service cost	–	–	(0.7)	(0.7)
Employee taxes and other expenses	0.1	–	–	0.1
Total	1.2	0.5	0.8	2.5

The estimated amount of contributions expected to be paid during 2013 is $2.1 million.

Actuarial gains and losses have been reported in the Consolidated Statement of Comprehensive Income. The net cumulative amount after tax of actuarial losses recognised in the Consolidated Statement of Comprehensive Income was $48.5 million (2011: $44.7 million), after tax effects of $14.6 million (2011: $12.8 million). The actual return on plan assets was $2.0 million (2011: $2.2 million).

The following table provides a reconciliation of the retirement benefit obligations:

	Norway		**United Kingdom**		**France**		**Total**	
For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec	**2012 31 Dec**	2011 31 Dec	**2012 31 Dec**	2011 31 Dec	**2012 31 Dec**	2011 31 Dec
Change in present value of defined benefit obligation:								
At period beginning	**29.5**	28.8	**28.3**	24.4	**11.9**	10.7	**69.7**	63.9
Service costs	**1.0**	1.1	**0.1**	0.3	**1.0**	1.0	**2.1**	2.4
Interest cost	**0.9**	1.1	**1.2**	1.4	**0.5**	0.5	**2.6**	3.0
Actuarial losses/(gains)	**1.0**	(2.7)	**4.3**	3.1	**1.4**	(0.2)	**6.7**	0.2
Benefits paid	**(1.1)**	(1.2)	**(2.0)**	(0.6)	**(0.6)**	(0.1)	**(3.7)**	(1.9)
Employee taxes	**–**	0.1	**–**	–	**–**	–	**–**	0.1
Curtailment	**–**	–	**(2.6)**	–	**–**	–	**(2.6)**	–
Other	**–**	0.8	**–**	0.1	**–**	–	**–**	0.9
Exchange differences	**1.9**	1.5	**0.7**	(0.4)	**0.2**	–	**2.8**	1.1
At period end	**33.2**	29.5	**30.0**	28.3	**14.4**	11.9	**77.6**	69.7
Change in fair value of plan assets:								
At period beginning	**22.3**	19.4	**19.0**	17.2	**–**	–	**41.3**	36.6
Estimated return on plan assets	**1.1**	1.1	**1.3**	1.0	**–**	–	**2.4**	2.1
Actuarial losses	**(0.3)**	(0.1)	**(0.2)**	–	**–**	–	**(0.5)**	(0.1)
Members' contribution	**0.9**	0.4	**–**	0.1	**–**	–	**0.9**	0.5
Company contribution	**–**	–	**22.5**	1.2	**–**	–	**22.5**	1.2
Benefits paid	**(1.0)**	(1.0)	**(2.0)**	(0.6)	**–**	–	**(3.0)**	(1.6)
Settlements	**–**	–	**(11.3)**	–	**–**	–	**(11.3)**	–
Other	**0.1**	1.7	**–**	–	**–**	–	**0.1**	1.7
Exchange differences	**1.4**	0.8	**0.7**	0.1	**–**	–	**2.1**	0.9
At period end	**24.5**	22.3	**30.0**	19.0	**–**	–	**54.5**	41.3
Funded status	**(8.7)**	(7.2)	**–**	(9.3)	**(14.4)**	(11.9)	**(23.1)**	(28.4)
Past service costs not yet recognised in Consolidated Balance Sheet	**–**	–	**–**	–	**–**	(0.7)	**–**	(0.7)
Overall status	**(8.7)**	(7.2)	**–**	(9.3)	**(14.4)**	(12.6)	**(23.1)**	(29.1)

Included within the defined benefit obligation are amounts arising from plans which are unfunded. The unfunded plans are the French plan and two Norwegian plans with an obligation of $nil (2011: $1.0 million). One of the Norway plans is in a funded position of $0.3 million (2011: $0.3 million). The expected return on plan assets has been determined after considering the expected return on each of the main asset classes separately and then taking a weighted average by asset value.

During the period, the Group funded the Comex Benefits Scheme (a defined benefit pension plan in the UK) to allow the trustees to proceed with a buy-out of the plan. An associated settlement charge of $11.3 million was recognised in the Consolidated Income Statement.

38. Retirement benefit obligations *continued*

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Period ended 31 December 2012

(in %)	Norway	United Kingdom	France
Key assumptions used:			
Pension increase	**0.2 – 3.2**	**2.1 – 2.9**	**–**
Discount rate	**2.4**	**4.4**	**3.0**
Expected return on plan assets	**4.0**	**–**	**–**
Rate of compensation increase	**3.5**	**–**	**3.8**

Period ended 31 December 2011

(in %)	Norway	United Kingdom	France
Key assumptions used:			
Pension increase	0.7 – 3.8	2.8	–
Discount rate	3.3	4.7	4.5
Expected return on plan assets	4.8	6.1	–
Rate of compensation increase	4.0	4.6	4.5

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience. The average life expectancy in years of a pensioner retiring at the plan retirement age was as follows:

			As at balance sheet date		20 years post balance sheet date	
Retirement Benefit Plan	Retirement Age	Sex	**2012 31 Dec**	2011 31 Dec	**2012 31 Dec**	2011 31 Dec
Norway sailor plan	60 years	Male	**23.4**	23.4	**25.7**	25.7
		Female	**26.9**	26.9	**29.0**	29.0
Norway office plan	67 years	Male	**17.2**	17.2	**19.1**	19.1
		Female	**20.2**	20.2	**22.2**	22.2
United Kingdom plan	65 years	Male	**21.2**	21.1	**23.1**	23.0
		Female	**23.8**	23.7	**25.7**	25.6
France plan	65 years	Male	**18.9**	18.9	**22.9**	22.9
		Female	**22.7**	22.7	**27.2**	27.2

The major categories of plan assets as at 31 December 2011 for each category are as follows:

As at 31 December 2012

(in $ millions)	Norway	United Kingdom	Total
Equity instruments	**2.2**	**–**	**2.2**
Bonds	**18.2**	**–**	**18.2**
Real estate	**4.0**	**–**	**4.0**
Derivative investments	**0.1**	**–**	**0.1**
Other assets	**–**	**30.0**	**29.9**
Total	**24.5**	**30.0**	**54.4**

As at 31 December 2011

(in $ millions)	Norway	United Kingdom	Total
Equity instruments	1.2	13.4	14.6
Bonds	10.6	4.9	15.5
Real estate	4.0	–	4.0
Derivative investments	6.6	–	6.6
Other assets	–	0.6	0.6
Total	22.4	18.9	41.3

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. This takes into account the evaluation of the plans' assets, the plans' proposed asset allocation, historical trends and experience and current and expected market conditions.

Experience adjustments are the actual gains/losses that arise because of differences between the actual assumptions made at the beginning of the period and the actual experience during the period.

The history of experience adjustments is as follows:

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec	2010 30 Nov	2009 30 Nov	2008 30 Nov
Present value of defined benefit obligations	**77.6**	69.7	63.9	61.6	42.8
Fair value of plan assets	**(54.5)**	(41.3)	(36.6)	(36.9)	(24.8)
Net deficit in the plans	**23.1**	28.4	27.3	24.7	18.0
Experience (losses)/gains on plan liabilities	**(6.7)**	(0.2)	(5.8)	(10.0)	1.3
Experience (losses)/gains on plan assets	**(0.5)**	(0.1)	(1.4)	7.2	(8.7)
Net experience losses	**(7.2)**	(0.3)	(7.2)	(2.8)	(7.4)

39. Deferred revenue

As at (in $ millions)	**2012 31 Dec**	2011 31 Dec
Advances received from clients	**76.8**	210.7
Total	**76.8**	210.7

Advances received from clients include amounts received before the related work is performed on day-rate contracts and amounts paid by clients in advance of milestone invoices relating to construction contracts.

40. Cash flow from operating activities

For the period ended (in $ millions)	Notes	**2012 31 Dec**	2011 31 Dec Restated[(a)]
Cash flow from operating activities:			
Net income		**847.2**	450.7
Adjustments for:			
Depreciation of property, plant and equipment	16	**314.5**	307.6
Net (impairment reversal)/impairment	7	**(2.7)**	25.4
Amortisation of intangible assets	15	**13.2**	26.4
Share in net income of associates and joint ventures	17	**(86.3)**	(103.7)
Mobilisation costs	7	**5.7**	3.4
Share-based payments	37	**12.5**	15.7
Finance income	9	**(15.8)**	(20.0)
Finance costs	9	**44.8**	40.4
Taxation	10	**221.6**	176.3
Losses on disposal of property, plant and equipment	8	**0.2**	2.9
Gain on disposal of subsidiary	41	**(243.6)**	–
Gain on distribution	11	**(5.6)**	–
Reclassification adjustments relating to foreign subsidiaries disposed of in the year	8	**(18.9)**	–
		1,086.8	925.1
Changes in operating assets and liabilities, net of acquisitions:			
(Increase)/decrease in inventories		**(12.0)**	2.4
Increase in operating receivables		**(451.3)**	(462.4)
Increase in operating liabilities		**107.7**	345.7
		(355.6)	(114.3)
Income taxes paid		**(216.1)**	(231.4)
Net cash generated from operating activities		**515.1**	579.4

(a) See Note 3 'Significant accounting policies' for details of restatement

Financials

41. Disposal of subsidiary

Disposal of the Group's share of NKT Flexibles

On 3 February 2012, the Boards of NKT Holding A/S and Subsea 7 S.A. announced the sale of their joint venture NKT Flexibles to National Oilwell Varco for a total cash consideration of DKK 3.8 billion. On 4 April 2012, the sale of Danco AS, a wholly owned subsidiary of the Group which owned 49% of NKT Flexibles was completed. The total gain on disposal recognised was $243.6 million.

Summarised financial information relating to the disposal is shown in the table below:

(In $ millions)	2012 31 Dec
Non-current assets	**125.4**
Cash and cash equivalents	**20.6**
Non-current liabilities	**(26.7)**
Current liabilities	**(0.9)**
Total carrying amount of net assets disposed	**118.4**
Consideration is comprised of:	
Cash	**364.8**
Consideration	**364.8**
Costs of disposal	**(2.8)**
Total carrying amount of net assets disposed	**(118.4)**
Gain on disposal of subsidiary	**243.6**
Net cash flows from disposal of subsidiary	**344.2**

42. Post balance sheet events

Renewable energy division

In January 2013, the Group announced that it will consolidate its renewable energy division into its joint venture, Seaway Heavy Lifting. This consolidation will rationalise Subsea 7's offering to the renewables market, and enable Seaway Heavy Lifting to leverage Subsea 7's engineering and project management expertise to broaden its range of services and target larger projects.

Seven Havila loan

In February 2013, the Group repaid and cancelled its external loan and guarantee facility and the export finance agreement described as the Seven Havila Loan as detailed in Note 28 'Borrowings'.

Proposed dividend

In the light of continued strong performance, the strength of the Consolidated Balance Sheet and confidence in the business, the Board of Directors has decided to recommend shareholders to approve the payment of a special dividend of $0.60 per share at the next Annual General Meeting on 28 June 2013.

Seven Sisters

In March 2013 the Group purchased Seven Sisters from Siem Offshore Rederi AS, a subsidiary of Siem Offshore Inc. The vessel was renamed *Simar Esperança* and is expected to be sold to the Group's joint venture SIMAR during 2013.

ICMS cases

In 2013, certain of the ICMS cases described in Note 33 'Commitments and contingent liabilities' with a total value of BRL 71.2 million ($34.3 million) were presented at the administrative level of the Brazilian taxation system. The decisions in these cases were unfavourable to the Group and when the decisions are formally notified, the Group intends to pursue the cases at the judicial level of the Brazilian legal system. The Group continues to believe that the likelihood of any payment is not probable and no further provision has been recognised.

Board of Directors

Mr Schultz and Mr Westlie have communicated to the Board of Directors on 13 March their intention not to stand for re-election on expiry of their term as Directors of Subsea 7 S.A. at the next Annual General Meeting on 28 June 2013.

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, other gains and losses (including gain on disposal of subsidiary and gain on distribution), taxation, depreciation, amortisation and mobilisation and adjusted to exclude finance income and impairment charges or reversals. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue. The items excluded from Adjusted EBITDA represent items which are individually or collectively material but which are not considered representative of the performance of the business during the periods presented. Other gains and losses principally relate to disposals of investments, property, plant and equipment and net foreign exchange gains or losses. Impairments of assets represent the excess of the assets' carrying amount over the amount that is expected to be recovered from their use in the future or their sale.

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

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

Reconciliation to net operating income:

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec
Net operating income	**808.2**	640.5
Depreciation, amortisation and mobilisation	**333.4**	337.4
(Impairment reversals)/impairments	**(2.7)**	25.4
Adjusted EBITDA	**1,138.9**	1,003.3
Revenue	**6,296.6**	5,476.5
Adjusted EBITDA %	**18.1%**	18.3%

Reconciliation to net income:

For the period (in $ millions)	**2012 31 Dec**	2011 31 Dec
Net income	**847.2**	450.7
Depreciation, amortisation and mobilisation	**333.4**	337.4
(Impairment reversals)/impairments	**(2.7)**	25.4
Investment income	**(15.8)**	(20.0)
Other gains and losses	**(289.6)**	(6.9)
Finance costs	**44.8**	40.4
Taxation	**221.6**	176.3
Adjusted EBITDA	**1,138.9**	1,003.3
Revenue	**6,296.6**	5,476.5
Adjusted EBITDA %	**18.1%**	18.3%

Special Note Regarding Forward-Looking Statements

Certain statements made in this Report may include 'forward-looking statements'. These statements relate to our expectations, beliefs, intentions or strategies regarding the future. These statements may be identified by the use of words such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'may', 'plan', 'project', 'should', 'will', 'seek', and similar expressions.

The forward-looking statements that we make reflect our current views and assumptions with respect to future events and are subject to risks and uncertainties. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, including those discussed in this Report under 'Risk Management', 'Financial Review' and the quantitative and qualitative information disclosures about Market Risk contained in Note 35 'Financial instruments' to the Consolidated Financial Statements. The following factors are among those that may cause actual and future results and trends to differ materially from our forward-looking statements: (i) our ability to deliver fixed price projects in accordance with client expectations and the parameters of our bids and avoid cost overruns; (ii) our ability to collect receivables, negotiate variation orders and collect the related revenue; (iii) our ability to recover costs on significant projects; (iv) capital expenditures by oil and gas companies; (v) the current global economic situation and level of oil and gas prices; (vi) delays or cancellation of projects included in our backlog; (vii) competition in the markets and businesses in which we operate; (viii) prevailing prices for our products and services; (ix) the loss of, or deterioration in our relationship with, any significant clients; (x) the outcome of legal proceedings or governmental inquiries; (xi) uncertainties inherent in operating internationally, including economic, political and social instability, boycotts or embargoes, labour unrest, changes in foreign governmental regulations, corruption and currency fluctuations; (xii) liability to third parties for the failure of our joint venture partners to fulfil their obligations; (xiii) changes in, or our failure to comply with, applicable laws and regulations; (xiv) cost and availability of supplies and raw materials; (xv) operating hazards, including spills, environmental damage, personal or property damage and business interruptions caused by adverse weather; (xvi) equipment or mechanical failures, which could increase costs, impair revenue and result in penalties for failure to meet project completion requirements; (xvii) the timely delivery of vessels on order and the timely completion of ship conversion programmes; (xviii) the impact of changes to estimated future costs and revenues used in project accounting on a 'percentage-of-completion' basis, which could reduce or eliminate reported profits; (xix) our ability to keep pace with technological changes; (xx) the effectiveness of our disclosure controls and procedures and internal control over financial reporting and (xxi) actions by regulatory authorities or other third parties.

Many of these factors are beyond our ability to control or predict. Given these uncertainties, you should not place undue reliance on the forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Investor relations and press enquiries

Shareholders, securities analysts, portfolio managers, representatives of financial institutions and the press may contact:

Paul Gooden
Investor Relations Director
email: paul.gooden@subsea7.com
T: +44 (0) 20 8210 5568

Financial information

Copies of Stock Exchange announcements (including the Group's quarterly and semi-annually results announcements and the Group's Annual Report and Consolidated Financial Statements) are available on the Group's website www.subsea7.com.

Any shareholder requiring a printed copy of the Group's Annual Report and Consolidated Financial Statements or the Company's Financial Statements can request these via the website www.subsea7.com.

Stock listings

Common shares – Traded on Oslo Børs under the symbol SUBC – www.olsobors.no.

Registrar – Common Shares

Registrar for the Shares of Subsea 7 S.A., recorded in the Norwegian Central Securities Depository (Verdipapirsentralen – the 'VPS').

DNB Bank ASA
Postboks 1600 Sentrum
NO-0021 Oslo
Norway
Tel: +47 23 26 80 16
Fax: +47 22 94 90 20
E-mail: irene.johansen@dnb.no

Depository Bank – ADRs

Subsea 7 S.A. has a sponsored Level 1 ADR facility, for which Deutsche Bank Trust Company Americas acts as depository. Each ADR represents one common share of the Company. The ADRs are quoted over-the-counter ('OTC') in the US under the ticker symbol SUBCY.

For enquiries, beneficial ADR holders may contact the broker service of Deutsche Bank Trust Company Americas.

Deutsche Bank Trust Company Americas
27th Floor
60 Wall Street
New York, NY 10005
USA

Shareholder Service: +1 866 249 2593 (toll free for U.S. residents only)

Broker Service Desk: +1 212 250 9100

Further information is also available at: www.adr.db.com.

Financial calendar

Subsea 7 S.A. intends to publish its quarterly financial results for 2013 on the following dates:

Q1 2013 Results	16 May 2013
Q2 & H1 2013 Results	14 August 2013
Q3 2013 Results	18 November 2013
Q4 & FY 2013 Results	March 2014

2013 Annual General Meeting

28 June 2013 at 15.00 CET
412F, route d'Esch
L-2086 Luxembourg

Registered office

412F, route d'Esch
L-2086 Luxembourg

Website

www.subsea7.com

GLOSSARY

Acergy S.A.	The legacy company prior to the Combination which completed following the close of business on Oslo Børs on 7 January 2011.
Adjusted EBITDA	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, other gains and losses (including gain on disposal of subsidiary and gain on distribution), taxation, depreciation, amortisation and mobilisation and adjusted to exclude finance income and impairment charges or reversals. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue. The items excluded from Adjusted EBITDA represent items which are individually or collectively material but which are not considered representative of the performance of the business during the periods presented. Other gains and losses principally relate to disposals of investments, property, plant and equipment and net foreign exchange gains or losses. Impairments of assets represent the excess of the assets' carrying amount over the amount that is expected to be recovered from their use in the future or their sale.
ADR	American Depositary Receipt (one Subsea 7 S.A. ADR represents one ADS).
ADS	American Depositary Share of Subsea 7 S.A.
AFGOM	Africa, Gulf of Mexico & Mediterranean Territory.
ANP	The National Petroleum Agency in Brazil.
AIV	Underwater autonomous inspection vehicle.
APME	Asia Pacific & Middle East Territory.
Articles of Incorporation	The articles of incorporation of Subsea 7 S.A.
Backlog	Expected future revenue under in-hand projects only where an award has been formally signed. Backlog awarded to associates/joint ventures is excluded from backlog figures, unless otherwise stated.
Barclays Capital	A global financial services organisation providing large corporate, government and institutional clients with a full spectrum of solutions including strategic advice, financing and risk management needs.
Being 7	The global employer brand of Subsea 7.
Board or Board of Directors	The Board of Directors of Subsea 7 S.A.
BuBi®	A Mechanically Lined Pipe jointly developed by Subsea 7 and BUTTING Group to handle corrosive fluids in offshore applications, where the carbon steel pipe is protected by an internal corrosion-resistant liner.
Buoyancy supported riser (BSR)	The BSR concept consists of a large sub-surface buoy which is anchored to the seabed by tethers. The buoy supports multiple Steel Catenary Risers which are connected to the FPSO by flexible jumpers.
Bundle pipeline	A Bundle pipeline incorporates all the structures, valve work, pipelines and control systems necessary to operate a field in one single pre-assembled product. The finished Bundle is transported to its offshore location by a Controlled Depth Tow Method, delivering considerable value and cost savings to our clients.
Bundle-lay (CDTM)	The Controlled Depth Tow Bundle-lay method was pioneered and developed by Subsea 7 and involves the transportation of pre-fabricated and fully-tested pipelines, control lines and umbilicals in a Bundle configuration suspended between two tow vessels. On arrival at the field, the Bundle is lowered to the seabed, manoeuvred into location and the carrier pipe is flooded to stabilise the Bundle in its final position.
BUTTING	The BUTTING Group is a leading international processor of stainless steel.
CapEx	Capital expenditure.
Cash-generating Unit (CGU)	These are the separable business units on which impairment reviews are carried out.
Conventional	The projects relating to the fabrication and installation of fixed platforms and their umbilicals, flowlines and associated pipelines (surface/shallow water developments).
Combination	The repurchase and cancellation of all of the issued and outstanding ordinary shares in the capital of Subsea 7 Inc., the issue by Subsea 7 Inc. of new ordinary shares to Acergy S.A. (now Subsea 7 S.A.) and the issue of new common shares the Subsea 7 Inc. shareholders, which took place on 7 January 2011. Under IFRS, the Combination is accounted for as an acquisition.
Combination Agreement	Business Combination Agreement between Acergy S.A. and Subsea 7 Inc. dated 20 June 2010.
Company	Subsea 7 S.A.
Dalia	Dalia Floater Angola SNC and TSS Dalia SNC.
Day-rate contract	A contract in which the contractor is remunerated by the customer at an agreed daily rate (often with agreed escalations for multi-year contracts) for each day of use of the contractor's vessels, equipment, personnel and other resources and services utilised on the contract. Such contracts may also include certain lump-sum payments e.g. for activities such as mobilisation and demobilisation of vessels and equipment.
Decommissioning	The taking out of service of production facilities at the end of their economic lives and their removal or partial removal from offshore for recycling and/or disposal onshore.
Deep Seas Insurance	Deep Seas Insurance Limited.
Dive Support Vessel (DSV)	An offshore construction vessel that has dedicated saturation diving chamber(s) and dive bells for subsea construction activities in water depths of up to 30-300 metres.
EBITDA	See Adjusted EBITDA.
Eidesvik Seven	Eidesvik Seven AS and Eidesvik Seven Chartering AS.
Electrically Trace Heated	A high-performance Pipe-in-Pipe technology that offers enhanced flow assurance properties.
Enabler	See Enabling Vessel.
Enabling vessel	A strategic pipelay and/or construction vessel that has the scale, versatility and flexibility to support the technically challenging demands of seabed-to-surface activities globally.
EPIC	Engineering, Procurement, Installation and Commissioning.

Term	Definition
Executive Management Team	The Executive Management Team of Subsea 7 S.A. comprises: the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Executive Vice President – Human Resources, General Counsel and Executive Vice President – Commercial.
Fabrication yard	An operational yard for the fabrication and/or assembly and refurbishment of subsea structures and topsides.
FEED	Initial conceptual front-end engineering design related to field development.
Flex-lay	A pipelay method for installing flexible pipelines, risers and in-line structures by spooling these from a reel, carousel or basket, bending them over a chute and guiding them onto the seabed.
Flowline	A pipeline carrying oil, gas or water that connects the subsea wellhead to a manifold or to surface production facilities.
FPSO	A floating production, storage and offloading unit. A floating vessel used by the offshore industry for the processing and storage of oil and gas.
Global Oceon	Global Oceon Engineers Nigeria Limited.
GSNC Shallow	Consórcio GSNC Raso.
Group	Subsea 7 S.A. and its subsidiaries.
Heavy lift vessel	An offshore vessel or barge designed to lift objects greater than 1,000 tonnes for subsea construction and topside operations.
Hook-up	The process of making connections from a well to an oil and gas separator and from the separator to either the storage tanks or a flowline.
Hybrid Riser Tower (HRT)	HRTs are recognised to have significant benefits for deepwater riser applications in terms of flow assurance, thermal performance and robustness of layout. An HRT provides the required flexibility by avoiding a crowded layout and allowing a progressive deployment. The concept is applicable to deepwater and ultra-deepwater, and to spread-moored and turret-moored FPSO installations.
ICMS	The Brazilian equivalent of value added tax (VAT).
IFRS	The International Financial Reporting Standards as adopted by the European Union.
International Energy Agency (IEA)	The IEA is an autonomous organisation which works to ensure reliable, affordable and clean energy for its member countries and beyond. The IEA's four main areas of focus are: energy security, economic development, environmental awareness, and engagement worldwide.
IMR	Inspection, maintenance and repair of subsea infrastructure.
IOC	International Oil Company.
i-Tech	A division of Subsea 7 that provides remotely operated vehicles and remote intervention tooling services to the global exploration and production industry.
ITP	ITP InTerPipe is a leading international producer of insulated pipelines.
J-lay	A pipelay method consisting of welding single lengths of steel pipe on board a pipelay vessel (into double, quadruple or hex joints) and lowering the double/quad/hex length of pipeline vertically either through the vessel's moonpool or over the side of the vessel to the seabed, then repeating the process.
LCV	Light Construction Vessel.
LIBOR	London InterBank Offered Rate. A daily reference rate based on the interest rates at which banks borrow unsecured funds from other banks in the London wholesale money market.
Life-of-Field (LOF)	The term used to describe the range of subsea engineering, project management and execution services related to the delivery of integrity management, intervention and construction services that are required, to ensure that the life of a producing field is maintained, enhanced or extended (also sometimes referred to as IMR).
LNG	Liquefied natural gas which is natural gas (predominantly methane) that has been converted temporarily to liquid form for ease of storage or transport.
Local content	Local content is the policy that is used by national governments to create value in their local economy through ensuring that a percentage value of a contract is delivered through the use of local people, material resources and services.
Lump-sum contract	A contract in which the contractor is remunerated by the customer at a fixed lump-sum price which is deemed to include the contractor's costs, profit and contingency allowances for risks. Any over-run of costs experienced by the contractor arising from, for example, an over-run in schedule due to poor execution or increases in costs of goods and services procured from third parties, unless specifically agreed with the customer in the contract, is for the contractor's account.
Market capitalisation	The market capitalisation is calculated as the number of common shares in issue at 31 December 2012 (351,793,731 shares) at the closing share price on Oslo Bors on 31 December 2012 of NOK132.2.
NIBOR	The Norwegian InterBank Offered Rate. A daily rate based on the interest rates at which banks borrow unsecured funds from other banks in the Norwegian wholesale money market.
Nigerstar 7	Nigerstar 7 Limited and Nigerstar 7 FZE.
NKT Flexibles	NKT Flexibles I/S.
NOK	Norwegian Krone, the lawful currency of Norway.
Normand Oceanic	Normand Oceanic AS and Normand Oceanic Chartering AS.
NSC	North Sea & Canada Territory.
OECD	The Organisation for Economic Co-operation and Development.
Oslo Børs	Oslo Børs ASA, a regulated market for securities trading in Norway.
Performance share	Performance shares are awarded under the 2009 Long-term Incentive Plan and cover approximately 120 senior employees. These shares vest after at least three years, subject to TSR performance against a comparator group.
PFC Energy	PFC Energy is a global consulting firm specialising in the oil and gas industry.
Pipe-in-Pipe	Pipe-in-Pipe is double-wall pipeline made of an inner pipe inserted into a protective carrier pipe. The annular space between the two pipes contains insulation material protected from the external pressure by the carrier pipe.
PLEMs	Pipeline End Manifolds.

PLETs	Pipeline End Terminations.
PLSV	Pipelaying Support Vessel.
Post-salt	Post-salt environments consist of oil reservoirs that are found above the geological salt spanning from shallow to deepwater depths.
Pre-salt	Pre-salt environments consist of oil reservoirs that are found below the geological salt layer.
Relationship Agreement	Relationship Agreement between Subsea 7 Inc. and Acergy S.A. and Siem Industries Inc. dated 20 June 2010 which expired 20 December 2012.
Remote intervention	Provision of tooling, sampling, repair and containment solutions and services, including engineering, project management, AIVs and ROVs and related tooling.
Renewables	Renewables or Offshore Renewables activity including the design and installation of offshore wind, tidal, wave and other related marine systems.
Restricted share	Restricted shares were awarded to certain employees of Subsea 7 Inc. 60% vested in June 2012 and 40% will vest in June 2014, subject to the employee remaining in employment.
Riser/Riser systems	A pipe through which liquid travels upward from the seabed to a surface production facility. Riser systems fall into two categories, those coupled directly to the host facility (SCRs), and un-coupled systems which in most cases are connected by flexible jumpers (HRTs/Buoy).
ROV(s)	Remotely Operated Vehicle(s).
SapuraAcergy	SapuraAcergy Assets Pte Limited and SapuraAcergy Sdn. Bhd.
Seaway Heavy Lifting	Seaway Heavy Lifting Holding Limited and its subsidiaries.
SEC	US Securities and Exchange Commission.
Setemares	Setemares Angola, Limitada.
Shares	Common shares of Subsea 7 S.A.
SIMAR	Sociedade Angolana De Inspeccao, Manutecao E Reparaco Maritima, Lda.
S-lay	A pipelay method consisting of continuously welding single lengths of steel pipe on board a pipelay vessel and feeding them in a horizontal manner typically over the stern of the vessel on a ramp (stinger) from where the pipe, under its own weight, forms an 'S'-shaped catenary as it is lowered to the seabed.
SLOR	Single line offset riser.
Sonacergy	Sonacergy – Servicos E Construcoes Petroliferas Lda (Zona Franca Da Madeira).
Sonamet	Sonamet Industrial S.A.
Spoolbase	A shore-based facility used to facilitate continuous pipelaying for offshore oil and gas production. A spoolbase facility allows the welding of joints of pipe, predominantly steel pipe of 4" to 18" diameter, into predetermined lengths for spooling onto a reel-lay pipelay vessel.
Subsea 7	Subsea 7 S.A. and its subsidiaries.
Subsea 7 Inc.	Subsea 7 Inc., a company incorporated under the laws of the Cayman Islands registered number MC-115107 with registered offices at the offices of Maples Corporate Services Limited, PO Box 10718, George Town, Grand Cayman, KY1-1106, Cayman Islands.
Subsea 7 S.A.	Subsea 7 S.A. (formerly Acergy S.A.), a company incorporated under the laws of Luxembourg registered with the Registre de Commerce et des Sociétés in Luxembourg under number B 43 172 with a registered office at 412F, route d'Esch, L-2086, Luxembourg.
Subsea Field Development Projects	The range of subsea engineering, design, project management, fabrication and installation services related to the development of new subsea oil and gas fields. The principal services relate to rigid and flexible pipelines, risers, umbilicals and associated construction activities.
Subsea 7 Malaysia	Subsea 7 Malaysia Sdn. Bhd.
SURF	Subsea Umbilicals, Risers and Flowlines, which includes infrastructure related to subsea trees or floating production platforms, regardless of water depth, such as pipelines, risers, umbilicals, moorings, and other subsea structures such as PLEMs and PLETs.
Technip Subsea 7	Technip Subsea 7 Asia Pacific BV, Technip Subsea 7 Asia Pacific UK Limited and Technip Subsea 7 Asia Pacific Singapore Pte Limited.
Tie-back	A connection between a new oil and gas discovery and an existing production facility, improving the economics of marginal fields into profitable assets.
Tonnage tax	An optional tax regime for shipping companies offered by tax authorities including the UK and Norway.
Total Shareholder Return (TSR)	A measure to show the returns an investor would realise from holding shares in a company and is defined as ((price at end of the year – price at beginning of the year) + dividend paid in year)/price at beginning of the year.
UK	The United Kingdom.
US	The United States of America.
Umbilical	An assembly of hydraulic hoses, which can also include electrical cables or optic fibres, used to control subsea structures from an offshore platform or a floating vessel.
Values	Subsea 7 has five Values which are embedded at all levels in the organisation and which guide our behaviours: Safety, Integrity, Innovation, Performance, and Collaboration.
Veripos	A division of Subsea 7 that provides global positioning solutions offshore to DP3 standards which was spun-off in 2012.
VPS	Verdipapirsentralen, the Norwegian central securities depositary.
Year, period or 2012	The period of 12 months from 1 January 2012 to 31 December 2012.
$ or US Dollars	The lawful currency of the United States of America.
€	The lawful currency of those Member States of the European Union that adopted the single currency.

OUR WORLD-CLASS FLEET

We operate one of the world's most versatile fleets comprising high-performance pipelay construction, remote intervention and diving support vessels.

See overleaf for our full range of vessels.

Get the latest investor information online: www.subsea7.com

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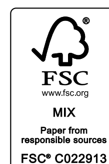

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Rigid Pipelay/Heavy Lift Vessels

Jack-up Vessel

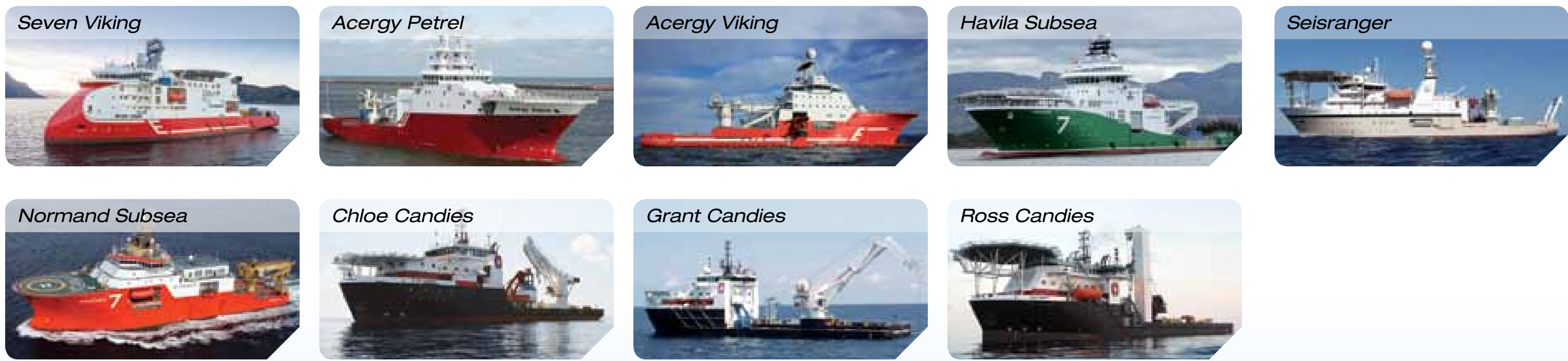
Trenching Vessel

Construction/Vertical Flex-lay Vessels

Due for delivery 2014

Construction/Flex-lay (Horizontal) Vessels

Life-of-Field/Light Construction Vessels



Diving Support Vessels

Due for delivery 2015

* These vessels are operated under our Joint Ventures. ** Formerly *Seven Sisters*. ***Formerly *Seven Havila*.

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