# POSITIONED FOR GROWTH


**Subsea 7 S.A.** Annual Report and Financial Statements 2011

# 2011 FINANCIAL HIGHLIGHTS

### Adjusted EBITDA[1]

## $1,003m

### Net operating income

## $451m

### Cash

## $803m

### Earnings per share (diluted)

## $1.21

### Revenue

## $5,477m

**Revenue by Territory**

| | |
|---|---|
| AFGoM | $2,543m |
| APME | $181m |
| Brazil | $687m |
| NSMC | $2,054m |
| CORP | $12m |

**Revenue by service capability**

| | |
|---|---|
| SURF | $3,315m |
| Conventional | $1,244m |
| Life-of-Field | $699m |
| i-Tech/VERIPOS | $219m |

### Backlog

## $8,538m

**Backlog by Territory**

| | |
|---|---|
| AFGoM | $2,866m |
| APME | $630m |
| Brazil | $2,584m |
| NSMC | $2,458m |

**Backlog by year of execution**

| | |
|---|---|
| 2012 | $4,237m |
| 2013 | $2,825m |
| 2014 and thereafter | $1,476m |


Front cover image – Seven Borealis, new heavy-lift/pipelay vessel will join the fleet in 2012.

During the year, the Group's accounting reference date was changed to 31 December. As a result these Consolidated Financial Statements include the Group's results for the 13 months ended 31 December 2011. Consolidated Balance Sheet information is presented as at 31 December 2011.

[1] See page 112 for an explanation of Adjusted EBITDA

# POSITIONED FOR GROWTH

## A leader in seabed-to-surface engineering, construction and services.

Subsea 7 is a business driven by the passion and knowledge of our people.  Safety is always at the heart of our operations.

We provide integrated services and have a proven track record of delivering complex projects in deep water and challenging environments.

Our success is based on:

- Our specialist knowledge and expertise in the design, fabrication, installation and commissioning of seabed-to-surface projects
- Our global resources of over 12,000 people, including over 1,500 engineers, in major offshore energy regions worldwide
- One of the world's most versatile fleets comprising over 40 high-specification pipelay, construction, intervention and diving support vessels.

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# SEABED-TO-SURFACE

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

## Global capabilities

“We work in partnership with our clients to develop and maintain long-term relationships that add value to their projects. Our diverse, integrated and dedicated teams are experts in their fields and have a track record of safely and efficiently executing complex projects in deep water and challenging environments. We have the flexibility to respond quickly and sensitively to local requirements, leveraging the full strength of our global resources and know-how.”

Jean Cahuzac, Chief Executive Officer, Subsea 7

## Operating principles

**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 will build our business around a valued and motivated workforce. We make long-term investments in our people, assets and know-how and we build strong relationships with clients and suppliers, based on mutual trust and respect.

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

# Services and solutions

## Our business

We concentrate on services and solutions that add value to our clients throughout the lifecycle of their offshore energy fields. Successful engineering and project management are core to our business and set Subsea 7 apart. It takes years of practical experience, know-how and dedication to safely deliver the toughest and most complex of offshore projects. We aim to deliver projects on time, within budget and to the highest quality standards, whilst making safety and security an absolute priority.

## Offshore upstream cycle

The offshore upstream cycle covers: seismic, exploration and appraisal, development, production and abandonment and is typically a 10 to 50 year cycle. Subsea 7 is principally involved in late-cycle activities, in particular in development and production.

### Exploration & appraisal

### Development

**SURF**
Includes infrastructure related to subsea trees or floating production platforms, such as pipelines, risers, umbilicals, moorings and other subsea structures, such as manifolds.

**Conventional**
Includes projects relating to the fabrication and installation of fixed platforms and their umbilicals, flowlines and associated pipelines (shallow water developments).

**Flexibles/Heavy Lifting**
Through our joint ventures, NKT Flexibles and Seaway Heavy Lifting, we provide clients with access to the full spectrum of products and services associated with Flexibles and Heavy Lifting.

### Production

**Life-of-Field**
Includes integrity management of installed infrastructure, such as planned inspection, routine maintenance, repair and incremental development.

**Conventional refurbishment**
Involves the maintenance and refurbishment of Conventional topside facilities.

**Decommissioning**
Through our joint ventures SapuraAcergy and Seaway Heavy Lifting we provide clients with access to decommissioning services.

## i-Tech and VERIPOS

i-Tech is a provider of ROVs and remote intervention tooling services to the global exploration and production industry. VERIPOS provides precise navigation and positioning services to the offshore industry.

## Renewable Energy

We have a dedicated Renewables energy business that provides project management, engineering and construction services to the offshore renewables industry. We are a strategic partner in Scottish and Southern Energy's (SSE) Offshore Wind Alliance. SSE is one of the largest generators of electricity from renewable sources in the UK and Ireland.

Chairman's Statement

# WELL POSITIONED TO CAPTURE FUTURE GROWTH OPPORTUNITIES

## 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.**

Great progress was made by your Company in 2011. In January, we completed the Combination between Acergy S.A. and Subsea 7 Inc. The new Subsea 7 is a leader in its field with state-of-the-art equipment and 12,000 people in a combined organisation which has proven quality performance on many projects during the year. The strong performance resulted in revenues of $5.5 billion and Adjusted EBITDA of $1 billion, while making progress with the merger integration plans.

## Economic turmoil and uncertainty remained evident

2011 was a challenging year in many parts of the world, both politically and economically, affecting economies, businesses and consumers alike. The economic turmoil and uncertainty that characterised 2010 remained evident through the year. 2011 will predominately be remembered through three key events, namely: the Arab Spring, the Fukushima nuclear disaster and the fears over the collapse of the Eurozone. These events, combined with the civil war in Libya and the fears over the potential loss of oil production there, led to a near 30% rise in the Brent oil price from the start of February to its high in April of over $125/barrel.

With a need to improve declining production profiles and the strong oil price, confidence returned to our industry. As the year progressed the strength of the order flow became evident and we saw a proliferation of new awards, including some of the major projects that had been long delayed. The global demand for energy continues to rise and with it our clients' requirement to access long-term sources of energy. And despite the ongoing economic uncertainty, 2011 saw the first year in which the average Brent oil price exceeded the $100 level.

The level of activity offshore is growing and the backlog of work has never been greater. Despite the uncertainty in the world economy, the visibility of growth in our industry is as good as ever.

## Well positioned for growth

Subsea 7 is built on basic values: Safety, Integrity, Innovation, Performance and Collaboration. These values recognise the key principles of honesty, predictability and longevity, principles which we believe are essential for an organisation to be successful. Shared values and an adherence to a rigorous global Code of Conduct are particularly important in our increasingly diverse global business. Our objective is to be the contractor of choice based on quality and a reliable operation.

Subsea 7 has a rich heritage and during 2011 we have built on our experience gained over many decades and nurtured our inherited strengths to capitalise on the

> “2011 was a defining year for Subsea 7. Today, we are stronger than ever.”

opportunities that lie ahead. Throughout the year, we have continued to focus on applying commercial discipline. Integration activities have progressed well – while ensuring that these activities have not distracted us from our focus of delivering safety and excellence in operations. We have maintained a balanced risk profile and managed effectively through the short-term challenges that the markets of recent years have presented without compromising our long-term strategy.

## From strength comes opportunities

The Combination presented an exciting opportunity for our shareholders, our clients and our people. The reasons are as valid today as they were in the summer of 2010, when we announced the Combination, and we have realised significant benefits. Today, we are stronger than ever.

We have a robust balance sheet and a size and scale that will enable us to maintain our disciplined approach to risk management and to growth. However, we must not become complacent, nor is it our ambition to win new business simply to become bigger. We remain focused on ensuring that we maintain a competitive cost level and are efficient in all areas.

To our clients all across the world, large and small, we bring more resources, access to a greater depth of expertise and the most modern and diversified fleet in the industry. This will enable us to provide engineering and technological solutions to meet their need for safe and efficient operations in increasingly harsh and challenging environments.

To our people we offer personal development and exciting growth opportunities in a global and attractive industry. At the same time, we aim to deliver enhanced long-term value for all shareholders.

## Board and operational changes

Following the completion of the Combination, the new Board quickly began operating as an effective and cohesive body. We have taken the opportunity to review our approach to corporate governance to ensure that we incorporate the best practices from our respective heritages. The Board is working effectively with the Executive Management Team to ensure successful implementation of our strategy, while ensuring the right checks, balances and oversight are in place across the Group. I am confident that the Board has the right mix of skills, knowledge and experience required for our complex business.

During the year, we delisted from NASDAQ and have subsequently applied for voluntary deregistration and the suspension of our reporting obligations under the US Securities and Exchange Act. This reflects the increasing proportion of our worldwide trading volume which is conducted through the Company's common shares listed on the Oslo Børs and outside the US. We believe the delisting and deregistration will free management time and reduce compliance costs and complexity without detracting from our standards of governance and controls.

## My thanks

On behalf of the Board, I would like to record my thanks for the contributions made by the outgoing Board members of both Acergy S.A. and Subsea 7 Inc. They contributed to positioning the Group as a leader in our industry. In March 2012, Mel Fitzgerald decided to resign from the Board. I would like to thank Mel for his many years of support, in both the former Subsea 7 Inc. as well as the new Group.

We are fortunate to have a highly experienced Executive Management Team, led by Chief Executive Officer Jean Cahuzac and supported by Chief Operating Officer John Evans, who are focusing on driving the business forward while maintaining a disciplined approach to excellence in project execution. Jean and his colleagues can count on the continued support and guidance of the Board.

I would also like to thank our shareholders and our clients for their continued support. And to our people I extend our thanks, and acknowledge their considerable efforts during a time of significant change and some uncertainty. It can easily be forgotten that it is our people, both onshore and offshore, that are at the heart of our success. The significant progress that we have achieved and the strong performance that has been delivered would not have been possible without the continued efforts and expertise of our people. We thank you for your contribution and dedication to our safe and efficient operations.

This time last year I wrote that Subsea 7, after a great year of progress in 2010 and the completion of a defining Combination, had never been stronger. In 2011 we continued to make remarkable progress towards our vision of being the leading strategic partner in seabed-to-surface engineering, construction and services. Today, we are stronger than ever. We are uniquely positioned and focused to build on this strength.

In light of the continued strong performance, the strength of the balance sheet and confidence in our business, the Board recommends shareholders approve a special dividend of $0.60 per share and has authorised a share buyback programme of up to $200 million to be carried out over the next 12 months. The Board will continue to review, on an annual basis, a return of excess capital to shareholders.

We are confident in the future and are excited about the opportunities in our industry.

**Kristian Siem**
Chairman

# A YEAR OF SOLID PERFORMANCE – COMBINATION PLAN HAS BEEN WELL EXECUTED

## Industry fundamentals remain strong

The medium and long-term fundamentals for the oil and gas industry remain strong driven by higher global demand, increasing rates of decline on producing fields, ageing infrastructure and the requirement to access challenging new reserves in deeper, harsher and more remote locations to replenish current production.

The International Energy Agency (IEA) forecasts 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 99 million barrels per day (mb/d) in 2035, about 12 mb/d higher than in 2010.

More and more of the world's oil fields are passing peak production, some of the world's most significant oil fields are witnessing rapid decline, resulting in an underlying average production-weighted observed rate of decline worldwide of approximately 6%.

Looking forward, the areas of greatest opportunity present greater technical challenges and higher exploration and production (E&P) capital expenditure. According to Barclays Capital, global E&P spending will approach $600 billion in 2012, an increase of 10% versus 2011. Continued high spending levels for the Supermajors are being driven by years of flat spending and under-investment in the early to mid 2000s, resource nationalisation which has resulted in the expansion of deepwater drilling activity (particularly in Brazil and West Africa) and the need to find and replace large pockets of reserves and increase production.

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

## We have achieved our Combination objectives

Our focused and disciplined approach has allowed us to achieve our Combination objectives for 2011 ahead of schedule. We have built a Group which is benefiting from the improved combined depth and breadth of our people and expertise. With an industry leading fleet of over 40 vessels, supported by extensive fabrication and onshore facilities, we are stronger and better placed to meet our clients' requirements in deepwater and other challenging environments.

## Reflecting on our performance

Safety is at the heart of all of our operations and, in a year of significant increase in activity while combining two companies, safety has remained a key priority for Subsea 7 management. We have made good progress toward achieving our vision of incident-free operations.

The Subsea 7 Combination efforts had no negative impact on the execution of our projects and we have delivered a strong financial performance. Revenue was $5.5 billion primarily reflecting good activity levels in the North and Norwegian seas, West Africa and Brazil. Although, as expected, profitability was impacted by lower margins on projects signed in 2009 and 2010, Adjusted EBITDA was $1 billion, in line with our expectations. Our balance sheet remained solid, with a good net cash position.

At period-end, backlog stood at $8.5 billion, a record level for the combined legacy companies. This result reflects not only the success of our commercial initiatives but also our clients' confidence in our ability to deliver reliable and efficient services. With a strong and diverse backlog, we will remain selective in targeting projects that play to our strengths and capabilities.

## An improving market with good long-term growth prospects

In 2011, 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. Supported by an oil price that averaged over $100 during the period, and continuing declining reserves, we saw activity pick up in the early months of the year and accelerate as the period progressed.

We expect this positive trend to continue in 2012 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 in deepwater and harsh environments. We also foresee strong activity in the shallow water Conventional market in Africa, especially in Nigeria and Angola, countries where Subsea 7 is very well positioned. All of these factors provide greater visibility today than we have had in recent years.

## Well positioned for growth

### Our people

One of the industry's greatest challenges is the availability of sufficient skilled people to deliver expected growth in the years to come. Subsea 7 is very well positioned to face this challenge. The new Group now has the ability to support and manage large projects from several centres of expertise around the globe.

Our people are offered opportunities to develop their know-how on a wide range of project types and the possibilities for career development are extensive throughout the Group. Training and developing our workforce through the Subsea 7 Academy is and will remain a priority in the future.

### Long-term efficiencies

The size, expertise and diversity of Subsea 7 today is clearly allowing us to accelerate our process optimisation plan and to improve efficiencies.

Having completed the Combination, we are able to effectively manage an increased number of vessels providing opportunities to optimise the fleet. This has brought benefits in 2011, and we expect to realise greater benefits in 2012 and beyond. We are also on track to achieve our targeted synergy cost savings.

### Our fleet

We operate a high-specification fleet of over 40 vessels, the largest in the industry. During 2011, we continued to successfully implement our fleet enhancement programme to meet our growth objectives.

We have taken delivery of two new-build vessels, *Seven Havila*, a diving support vessel and *Oleg Strashnov,* a second heavy-lift vessel for our Seaway Heavy Lifting joint venture.

Following the award of a five-year frame agreement with Statoil, *Seven Viking*, a new-build IMR vessel, was chartered for an initial term of eight years. She is expected to join the fleet in Q4 2012. Meanwhile, *Havila Subsea*, an IMR/survey and light construction vessel, joined the fleet to commence work prior to the delivery of *Seven Viking*.

Two vessels, *Grant Candies* and *Chloe Candies*, were chartered to support the newly awarded three-year contract from BP for Life-of-Field services in the US Gulf of Mexico.

In late 2011, we were awarded a five-year contract for a new-build flexible pipelay vessel by Petrobras in Brazil. This vessel, built in Europe, will cost approximately $350 million and is expected to start operations in 2014. We also acquired the *Seven Inagha*, a new-build lift barge, which is expected to commence operations on fixed platform conventional activities in Nigeria in Q2 2012.

We also signed a three-year charter plus options for the *Normand Oceanic*, a heavy construction vessel, which will join our fleet in April 2012. As well as these new additions to the fleet, and in accordance with our fleet renewal strategy, we have also divested and released some smaller, older assets during the year.

Work on *Seven Borealis*, our flagship vessel, progressed well and she will be delivered in 2012 before commencing operations for the CLOV Project, offshore Angola.

We continue to seek opportunities to invest in vessels that will drive superior returns for the future and which are capable of working in the most challenging environments for years to come.

### Local content

A strong local presence is essential and is a competitive advantage in many parts of the world. It not only provides a differentiator but is an essential prerequisite to operating, winning work and successfully executing major projects in core markets for the Group. In 2011, we have strengthened our local content further in Nigeria through the establishment of NigerStar 7. This joint venture brings together the engineering, installation and project management expertise of Subsea 7 in Nigeria with the fabrication capacity and capability of Nigerdock, our joint venture partner, to provide enhanced local expertise to our clients.

As well as satisfying our clients' requirements, a strong 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 long-term growth for the Group, such as Angola, Australia, Brazil, Ghana, Malaysia and Nigeria.

Our long-term investment in people and our local presence position us well in this global market.

## Conclusion

Our strategy remains focused on key markets with strong and sustainable growth characteristics, markets where we can differentiate ourselves.

Our clients' global spending is expected to grow in 2012 and beyond, in spite of the remaining short-term uncertainties of the global economy.

Subsea projects will continue to increase in size and complexity, in deepwater and more challenging environments. This will contribute to strong industry growth for those companies that have the size and capabilities to fulfil clients' requirements and execute projects in a consistent, reliable and cost-effective manner. We have the world-class engineering, project management and fleet necessary 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. 2011 has been a significant year for the Group. Our people have again demonstrated dedication and commitment in a challenging environment. Our Combination plan has been well executed and we have achieved all our key objectives for 2011. Today, we are better positioned for growth than ever before and we have an exciting future ahead.

**Jean Cahuzac**
Chief Executive Officer

Our Strategy

# CREATING LONG-TERM VALUE

## Our vision

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

## Group strategy

Our strategy is to concentrate our expertise and capability on sectors of the offshore energy market which are characterised by their potential for sustainable growth and in which we have clear competitive advantages.

# Differentiation through our strengths

Our highly-experienced people, fleet capability and flexibility, and use of specialist technologies combine to create an efficient and effective integrated services contractor.

**People:**

We have a multicultural workforce of over 12,000 people of more than 70 nationalities.

Our people are among the most experienced in the subsea industry.

We continually recruit new talent and are committed to building businesses with local people.

We provide structured career development and can offer outstanding opportunities locally and internationally.

**Vessels:**

Our growth strategy is underpinned by our ability to deploy our strategic enabling vessels on projects on a worldwide basis.

Being able to operate and manage a fleet of over 40 high-specification vessels allows us to be highly responsive to specific local project requirements.

Our strategy for fleet expansion is to own our enabling vessels and optimise our fleet composition to provide our clients with a cost-competitive service.

**Technology:**

New technologies such as Hyperflow® Riser Towers, Grouped SLOR and advanced ROV capabilities have helped Subsea 7 to continue to push the boundaries of what we do in a safe and efficient manner.

We continue to invest in a wide range of client-focused R&D projects in enabling and production technologies such as enhanced pipeline insulation and heating, exotic and high-strength steels, deepwater riser systems and autonomous remote intervention.

Our in-house technical experts work closely with our clients, academic institutions, other research providers and suppliers to deliver effective, market-orientated solutions.

## Our business

As a "pure play" seabed-to-surface subsea business, we concentrate on the following shallow to deepwater market sectors:

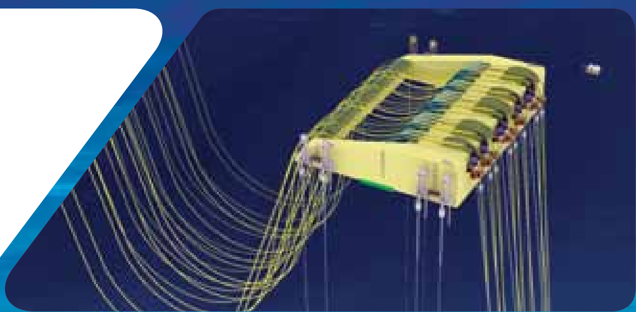
- Subsea Umbilicals, Risers and Flowlines (SURF)
- Conventional Refurbishment and Hook-up of offshore installations
- Life-of-Field operations
- Specialist activities including Remote Intervention, Precise Navigation and Positioning Services and Offshore Renewables.

## Delivery

With an established presence in the world's main oil and gas regions, we have the flexibility to respond quickly and sensitively to local requirements, while being able to draw on the full strength of our global resources and knowledge.

We are strategic partners, ready to make long-term investments in support of clients' requirements.

We balance our business portfolio across Territories and market sectors to minimise risk and maximise opportunity, and are an active partner in strategic joint ventures.



# AFRICA & GULF OF MEXICO

A number of project completions and good performance across the Territory contributed to a strong year.

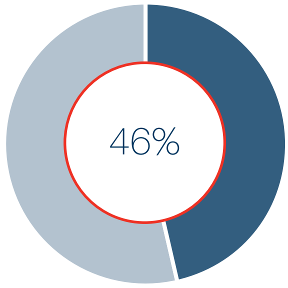
“Sustained local presence puts us in a strong position to capture a significant share of the growing deepwater market.”

Olivier Carre, Senior Vice President, Africa & Gulf of Mexico.

**2011 Highlights**

- Completion of Block 17 and PazFlor Projects for Total
- Completion of Angola LNG Project
- Investment in *Seven Inagha* to support Hook-up revamping activity in Africa
- Commenced fabrication activity on $1.3 billion CLOV Project for Total
- Launch of NigerStar 7 joint venture in Nigeria
- Awarded $125 million three year Life-of-Field contract for BP in the Gulf of Mexico
- Awarded contract for Tahiti Phase 2 Project for Chevron in the Gulf of Mexico
- Awarded contracts for the Cardamom and West Boreas Projects for Shell in the Gulf of Mexico
- Awarded $465 million contract for OFON II Project for Total, offshore Nigeria
- Backlog increased to $2.9 billion.

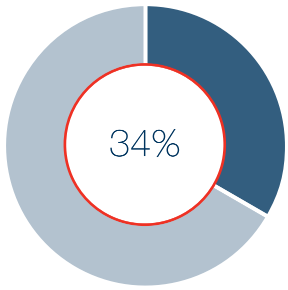
**Revenue**




$2,543m

Total Territory revenue as actual and as a % of total Group revenue for the 13-month period ended 31 December 2011

**Backlog**




$2,866m

Total Territory backlog and as a % of total Group backlog as at 31 December 2011

## Market overview

SURF activity in Nigeria is expected to remain strong for the next five years. The country's deepwater reserves remain significant, and should create medium-term growth opportunities, especially if political stability improves. The ongoing refurbishment of Nigeria's mature offshore infrastructure, including over 100 ageing shallow water platforms, already represents a stable market.

In contrast, Angola is already actively committed to development of its significant offshore deepwater reserves, and a recent pre-salt discovery in Block 23 raises the prospect of deepwater projects in the near future. The upgrading and modifications of FPSOs in Angola will also create additional opportunities.

Elsewhere in Africa, deepwater offshore prospects have significant long-term potential, with fields under development in Ghana, prospects identified in Ivory Coast, Liberia and Sierra Leone, and substantial gas discoveries in Mozambique.

In the Gulf of Mexico offshore drilling and construction activities have been deferred during a period of widespread safety review. Nonetheless, there has still been increased expenditure in the Life-of-Field sector.

Mexico has particularly strong opportunities for growth, given its ambitious planned deepwater expenditure in new platforms and associated pipelines.

## Opportunities

In Africa, our strategy for growth is based on long-term investments in local project management and fabrication facilities, most recently with our NigerStar 7 joint venture in Nigeria which greatly enhances Subsea 7's capabilities in the country. With our Angolan partners, our subsidiary Sonamet, we produce high-quality fabrications for the Angolan offshore market.

In addition, we have devolved many of our project management and supporting disciplines into our African offices and have established a robust network of trusted local partners. This commitment to a sustained local presence in Africa puts us in a strong position to capture a significant share of the growing deepwater market.

Clients in the Gulf of Mexico have increased their focus on marine and equipment safety assurance, an area of competitive strength for Subsea 7. In 2011 we had three vessels actively engaged in Life-of-Field activity in the Gulf of Mexico, and we anticipate that our penetration of this valuable long-term sector will continue.

Future offshore development in the Gulf of Mexico is likely to concentrate on ultra-deepwater fields. This will present complex technological challenges where our experience on projects such as Perdido and Independence Hub will give us competitive advantage.

The unique flexibility and capability of our fleet, which is able to work in all water depths and pipelay modes, is well matched to the diversity of projects which are expected to be executed across the Territory.

## Project case study: PazFlor

Located 150km offshore Angola, PazFlor is one of the largest deepwater oil developments in the world, and the recently completed $700 million SURF Project awarded by Total represents a landmark success, including safe and early delivery to the client.

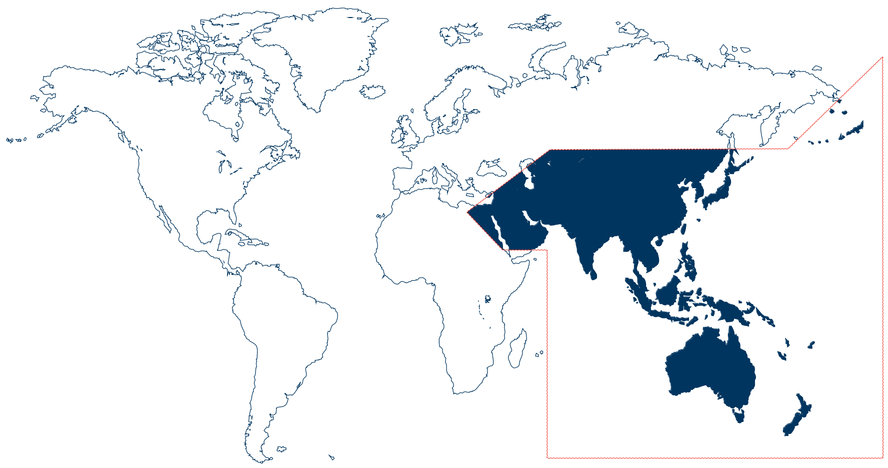
Following an intensive two-year programme of pre-engineering, design and fabrication, three vessels in the Subsea 7 fleet – *Acergy Polaris, Seven Eagle* and *Acergy Legend* – executed the delivery and load-out of 7,500 tonnes of subsea equipment and 4,000 tonnes of rigid flowlines.

PazFlor also involved the first deepwater deployment of two 830-tonne subsea separator units.

Business Review

# ASIA PACIFIC & MIDDLE EAST

A number of significant new awards and continued strong performance provided positive results in the Territory.



"Our strong track record in deepwater projects positions us for future opportunities."

Barry Mahon, Senior Vice President, Asia Pacific & Middle East.

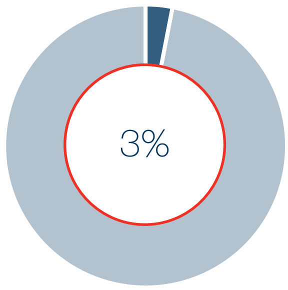
**2011 Highlights**

- Completion of Kitan Mooring Project for Bluewater, Abu Cluster for MISC, and Tiong A and Tinggi for Newfield, in Asia
- Completion of Al Shaheen Project offshore Qatar for Maersk Oil
- Completion by TS7* of its final project, the CWLH Redevelopment, for Woodside Energy, offshore Australia
- Completion by SapuraAcergy** of Gumusut 2011 scope for Shell, offshore Malaysia
- Completion by SapuraAcergy** of Devil Creek Project for Apache, offshore Australia
- Awarded two contracts exceeding $500 million for Gorgon Project for Chevron, offshore Australia
- Awarded G1 Project, the first deepwater development for ONGC, offshore India
- Awarded Kumang Project for Petronas, offshore Malaysia
- SapuraAcergy** awarded $160 million contract for Montara Project by PTTEP, offshore Australia
- Backlog increased to $600 million.

* Joint venture with Technip

** Joint venture between Subsea 7 and SapuraCrest

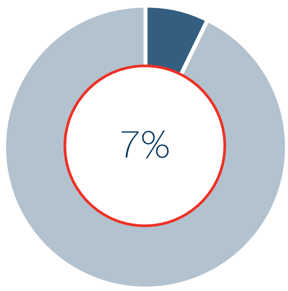
Revenue




$181m

Total Territory revenue as actual and as a % of total Group revenue for the 13-month period ended 31 December 2011

Backlog




$630m

Total Territory backlog and as a % of total Group backlog as at 31 December 2011

## Market overview

Driven by a strong demand for energy, Asia Pacific & Middle East (APME) is a Territory of growing significance as an offshore oil and gas producer in the global market.

After years of successful oil and gas developments on the shallow continental shelf, the region has entered an era of larger, more complex deepwater projects which offer major opportunities to subsea contractors with a strong track record in this area.

There is also a large area of unexplored deepwater acreage in the region, confirming medium and long-term potential for further development.

The Territory is particularly active in the production of Liquefied Natural Gas (LNG), with Australia forecast to rival Qatar as the world's largest LNG exporter in the near future.

## Opportunities

There are major opportunities in this highly competitive marketplace. Subsea 7 has established a strong presence throughout this large and diverse Territory, with offices in Singapore, Kuala Lumpur and Perth, augmented by local and international people on a project-by-project basis.

Vessel utilisation is a key driver of business performance in an area as vast as APME, where transits from base to project location can take significantly longer than in other Territories. Having access to a flexible fleet, with a strong track record in deepwater projects, and a familiarity with APME's many diverse local cultures, positions us to take advantage of future opportunities.

Our Singapore office in particular offers us a strong platform from which to plan and execute deepwater offshore projects in China, India, Indonesia, Malaysia, Vietnam and other markets.

A long-established presence and extensive track record in Australia, where we have been involved in most major offshore developments in recent years, puts us in a strong position in the rapidly expanding LNG market; building on our early involvement in milestone developments such as the Gorgon Project in Western Australia.

In addition, SapuraAcergy, our Malaysian joint venture, has widespread experience on diverse projects in Australia, India, Japan and Malaysia itself, deploying the *Sapura 3000*, one of the world's most advanced pipelay, construction and heavy-lift vessels.

## Project case study: Gorgon

The Gorgon Project is one of the world's largest natural gas projects and the largest single-resource project in Australia's history. The award to Subsea 7 of two contracts from Chevron provides an excellent opportunity to build upon our strong local presence and long-standing track record of working on significant subsea projects offshore Australia.

The combined workscopes include installation and tie-in of heavy lift structures in the Gorgon and Jansz-Io Fields, engineering, spools fabrication, transportation, installation and pre-commissioning of 20 subsea structures and foundations, each of up to 1,065 tonnes; 15 heavy spools, each of up to 190 tonnes; 48 tie-in spools; 39 electrical and 18 hydraulic flying leads; and five infield umbilicals and two associated distribution units.

The project management and engineering is being carried out from Subsea 7's office in Perth, Australia.

# BRAZIL

## Strong local knowledge, operational presence and Territory experience continued to lay a platform for growth.

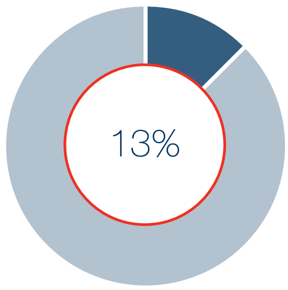
“We are well placed to address the significant technological and logistical challenges of the pre-salt fields.”

Victor Bomfim, Senior Vice President, Brazil.

**2011 Highlights**

- Completion of the offshore campaign on the Tambaú-Uruguá and P-56 SURF Projects for Petrobras
- Management of six pipelaying support vessels (PLSVs) and one diving support vessel (DSV) on long-term charter for Petrobras
- Awarded $1 billion Guara and Lula NE contracts for Petrobras in the pre-salt area
- Awarded $200 million contract for UOTE Project for Petrobras
- Awarded $500 million long-term charter contract for a new PLSV for Petrobras
- Awarded $200 million contract for the GSNC Project for Petrobras
- Awarded 2,600km pipeline inspection Project for Petrobras
- Start of the offshore campaign for P-55 Export Lines and GSNC Projects for Petrobras
- Backlog increased to $2.6 billion.

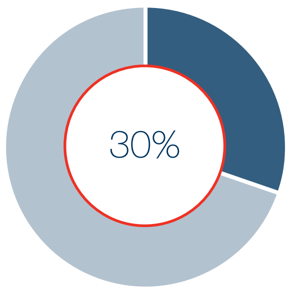
### Revenue




$687m

Total Territory revenue as actual and as a % of total Group revenue for the 13-month period ended 31 December 2011

### Backlog




$2,584m

Total Territory backlog and as a % of total Group backlog as at 31 December 2011

## Market overview

The Brazilian offshore oil and gas market has continued to demonstrate its impressive capacity for growth. This has been based on a combination of substantial deepwater pre-salt discoveries and a strengthening of the internal market.

The Petrobras 2011 Investment Plan confirms the quality of the prospects in the Territory. Petrobras has indicated a total investment of $225 billion between 2011 – 2015, with exploration and production in Brazil accounting for $118 billion, including $54 billion for eight new pre-salt developments. The existing post-salt basins will see investment of $64 billion in ten new developments confirming that post-salt activity remains significant in the Brazil offshore market.

There is an increasing emphasis on local content, introduced to support the long-term growth of the Brazilian oil and gas market.

## Opportunities

Subsea 7 has a track record of over 20 years of supporting Petrobras and other clients in the Brazilian offshore market. We are well positioned to capture a significant portion of the growing deepwater SURF sector, both from Petrobras and OGX, and from the international oil companies active in the Santos and Campos Basins, including BP, Chevron, Shell and Statoil.

Having executed over 20 major Brazilian projects, and with six PLSVs and one DSV currently on long-term charter to Petrobras, we are actively building on our local knowledge, operational presence and Territory experience.

This has been achieved by continuous investment in Brazilian operational bases and fabrication facilities, and developing the skills and expertise of over 200 engineers and many more specialist industry professionals. In what is widely recognised as a challenging environment, Subsea 7's experience of working on major deepwater EPIC projects means we are well placed to address the significant technological and logistical challenges of developing the next generation of ultra-deepwater and pre-salt fields.

### Project case study: P56

Early 2011 saw the completion of the EPIC P56 Project for Petrobras in the South Marlim field in the Campos Basin. This project included a full EPIC scope, with Subsea 7 carrying out the detailed engineering design, procurement, fabrication of pipeline stalks, installation of pipelines and pre-commissioning services.

The project included installation of two 13km-long 12” rigid steel oil export pipelines, one 8.6km 10” rigid steel gas export pipeline, four In-Line Tees, five PLETs and one PLEM, in water depths up to 1,650m.

The offshore installation campaign was executed by the *Seven Oceans*, with the commissioning and post-lay survey activities carried out by the *Seisranger*.

# NORTH SEA, MEDITERRANEAN & CANADA

2011 has been a year of backlog enhancement, increased activity and multiple project completion.

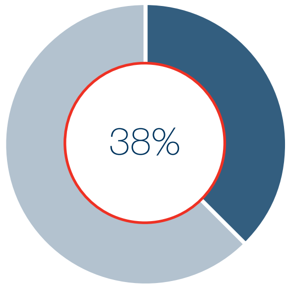
> NSMC is well positioned to draw on global engineering and project management expertise, fleet capacity and flexibility.

Øyvind Mikaelsen, Senior Vice President, North Sea, Mediterranean & Canada.

## 2011 Highlights

- Completion of Deep Panuke Project for Encana in Canada
- *Seven Havila,* an advanced new-build diving support vessel, joined the fleet
- Awarded SURF contracts for B11, Ekofisk WI and Eldfisk Projects for ConocoPhillips in the Norwegian Sea
- Awarded SURF contract for Skuld Project for Statoil in the Norwegian Sea
- Awarded $250 million, five-year inspection, maintenance and repair contract for Statoil in the Norwegian Sea
- Awarded $185 million SURF contract for West Franklin Project for Total in the North Sea
- Awarded $220 million contract for Siri Caisson Permanent Support Project for DONG Energy in the North Sea
- Record tendering activity, including in the Mediterranean
- Backlog increased to $2.4 billion.

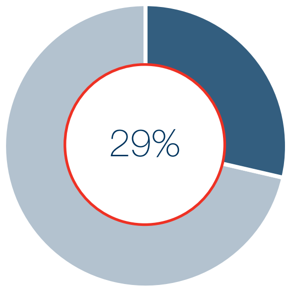
### Revenue




$2,054m

Total Territory revenue as actual and as a % of total Group revenue for the 13-month period ended 31 December 2011

### Backlog




$2,458m

Total Territory backlog and as a % of total Group backlog as at 31 December 2011

## Market overview

2011 saw record SURF tendering activity throughout the North Sea, Mediterranean & Canada (NSMC) Territory, with particular growth in medium and large-scale EPIC projects. Subsea 7 successfully secured a solid backlog of contracts in this sector from new and established clients in the UK, Norway and Canada.

After decades of exploration and production, the developed infrastructure in the North and Norwegian Seas continues to present long-term opportunities both for fast-track field development from new discoveries and for increasing Life-of-Field operations.

As infrastructure nears the end of its original design life, and is augmented by increasingly complex high-technology subsea installations, the Life-of-Field market is forecast to grow significantly, in particular through the award of major frame agreements.

In 2011 the industry made several significant oil and gas discoveries both in the mature areas of the North Sea and in the frontier areas in the Barents Sea.

The offshore exploration and production industry is anticipating its greatest technological challenge to date – extending its capabilities to exploit the discoveries in the extreme harshness of the Barents Sea and eventually the Arctic.

## Opportunities

The NSMC Territory encompasses the full diversity of the subsea industry, from shallow water tie-backs to large, highly complex EPIC field developments, and from the integrity management of ageing subsea infrastructure to the challenge of frontier developments such as West of Shetland.

Subsea 7 is well positioned to respond positively to demands in the Territory, drawing on global engineering and project management expertise, fleet capacity and flexibility. We possess an impressive track record in Life-of-Field operations, including frame agreements with BP, Centrica, ConocoPhillips, DONG, Shell, Statoil and Total. The continued successful delivery of these Life-of-Field activities will underpin our future growth in this strategically important sector for the Territory.

Recent bidding activity in the Territory indicates a trend towards a higher proportion of EPIC SURF projects, a sector in which we have acknowledged competitive strengths. Our fabrication facilities in Wick and Vigra have world-class capabilities that enable us to deliver our innovative pipeline bundles, rigid pipelines and other subsea infrastructure.

The new discoveries in the mature areas of the North Sea and in the frontier areas in the Barents Sea represent long-term opportunities and indicate a high demand for our expertise for several decades to come.

Subsea 7's operations in Norway and Canada are well positioned strategically to offer a gateway to the Barents Sea and other Arctic regions.

### Project case study: Deep Panuke

The $195 million Deep Panuke SURF Project offshore Nova Scotia, Canada, for Encana was completed during 2011. The project included a successful 130-day offshore construction and saturation diving campaign, using the *Acergy Discovery* to perform the subsea tie-ins.

The *Acergy Falcon,* which had earlier completed its first installation of metallurgically-bonded clad pipe and solid corrosion-resistant alloy pipe, returned in 2011 to successfully complete the installation and trenching of 18km of umbilicals.

The project was supported by Subsea 7's offices in Aberdeen, UK and St John's, Canada, demonstrating the value of being able to share work successfully across the Territory.

# SPECIALIST ACTIVITIES AND JOINT VENTURES

Another year of good performance from all areas resulting in positive contributions.

## i-Tech

i-Tech is a specialist provider of ROV and remote intervention services to the global exploration and production market. With over 100 ROVs in its global fleet, i-Tech is the market leader in its sector in Brazil, and is firmly established as a leading provider of ROV support services globally.

During 2011, mobilisation started on i-Tech's most recent ROV Services Project for Petrobras in Brazil. With 29 ROV systems already called off against the contract, this is the largest single contract for the provision of ROV support services to offshore drilling operations ever awarded worldwide.

i-Tech has further consolidated its position as the leading provider of ROV services to the deepwater drilling market offshore Mexico with the commencement of two new long-term contracts.

2011 also saw i-Tech operating in a number of new countries, including Guinea, Mozambique and Romania. Further significant opportunities have been identified in countries in Eastern Africa, where large offshore discoveries have already been announced.

Going forward, Brazil remains a key growth area for i-Tech. In addition, we soon expect to see more stringent technical requirements in the Gulf of Mexico, which will provide a number of new opportunities for ROV and intervention tooling.

### ROV support to Petrobras in Brazil

i-Tech designed a new QX Ultra ROV for the Petrobras ROV Services Project, and, as a result of this contract, saw its Brazilian workforce almost double in size during 2011.


## VERIPOS

As one of the early innovators in the field of precise positioning, VERIPOS aims to be the market leader in precise navigation and positioning solutions offshore, through the innovative application of technology, continuous product development and operational excellence. Around 500 marine vessels now use VERIPOS' services worldwide. During 2011 VERIPOS consolidated its position in the Dynamic Positioning (DP) drilling market with several supply contracts for new-build and converted drill rigs now on long-term contract. Successful product development also continued with the launch of APEX, a new, independent high-accuracy positioning service.

2011 saw growth in several sectors of the offshore market for precise navigation and positioning services. Seismic exploration activity experienced a sustained recovery in 2011; the offshore survey and construction markets both showed increased activity, especially in Australia and South East Asia.

The DP marine market saw a large number of new-build vessels entering service during 2011, especially in the Brazilian long-term platform support and anchor handling tug sectors. This all provides a positive outlook for future opportunities.

### Growth in Asia Pacific – China/Singapore

In anticipation of planned growth in mainland China and across the Asia Pacific region, VERIPOS upgraded and relocated its Network Control Centre in Singapore, and opened its first office facilities in China.

## NKT Flexibles

Since 1999, Subsea 7 has jointly owned NKT Flexibles, an established Danish-based manufacturer of flexible subsea pipe systems for recovering offshore oil and natural gas reserves. NKT Flexibles installed its first flexible pipe system in 1968, thereafter broadening the use of this technology to many seabed-to-surface applications, including dynamic and static risers, static flowlines, subsea jumpers, topside jumpers and expansion joints, in locations ranging from near coastal shallow waters to ultra-deep waters.

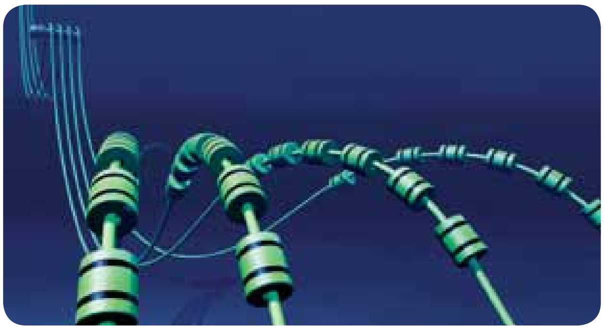
NKT flexible pipes are now deployed in many offshore oil and gas operations, including production, gas lift, gas injection, water injection and various ancillary lines including portable water and liquid chemical lines.

NKT Flexibles operates as an independent supplier to the offshore industry, working directly with oil companies as well as other subsea contractors, engineering specialists and oil industry suppliers.

During 2011, NKT Holding A/S and Subsea 7 S.A. conducted a strategic review of the business, which led to an agreement to sell NKT Flexibles to National Oilwell Varco, a transaction which, subject to closing conditions and approval from the relevant competition authorities, is expected to close during 2012.

### Seabed-to-surface applications

NKT Flexibles have products for many seabed-to-surface applications, including dynamic and static risers, static flowlines, subsea jumpers, topside jumpers and expansion joints.



## Seaway Heavy Lifting

Subsea 7 jointly owns Seaway Heavy Lifting (SHL), an established offshore contractor operating two world-class heavy-lift vessels, *Stanislav Yudin* and *Oleg Strashnov*. Both vessels are fully equipped for the installation and removal of major offshore structures on a global basis.

SHL has successfully executed offshore projects in the Black Sea, the Gulf of Mexico, India, the North Sea, the Mediterranean and the Middle East, including the installation of large jackets and topsides, subsea infrastructure and offshore wind foundations and substations, as well as the removal and recycling of redundant structures.

In terms of subsea installations, SHL has successfully installed and removed templates, manifolds, protection cages and satellite structures with weights of up to 900 tonnes, and in water depths of up to 300m.

Delivered in 2011, the *Oleg Strashnov* is the largest mono-hull heavy-lift vessel in the world, capable of lift heights of 100m for the 5,000-tonne main hook and 132m for the 800-tonne auxiliary hook. The innovative hull shape of the vessel gives her a transit speed of 14 knots, allowing for wide geographical deployment.

*Oleg Strashnov* is capable of executing an impressive range of projects, from dual-hook upending of large jackets to heavy deck installations. The installed DP3 system also enables the vessel to be deployed on the installation of large and heavy subsea structures, tension leg platform/spar foundations and topsides.

### Largest mono-hull heavy-lift vessel in the world

*Oleg Strashnov* can be deployed globally on the installation of offshore wind foundations and substations, as well as the removal and recycling of redundant structures.

Business Review

# SOCIAL ACCOUNTABILITY AND SUSTAINABILITY

We are committed to the countries in which we operate and recognise our wider responsibilities to the environment.

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 not only recruit and develop local people, and guide and support the local supply chains, but we also identify areas of community involvement where our voluntary efforts can make a difference.

There are benefits on both sides from successful participation in well planned voluntary action. 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.

Our people are involved in many kinds of voluntary work around the world.

## NSMC

Subsea 7 was a Gold Sponsor for the Walk to Cure Diabetes, a major fund-raising event organised by the Juvenile Diabetes Research Foundation (JDRF). Over 100 employees took part in the walk in addition to Subsea 7 providing the JDRF organisation in Aberdeen with office space.

The International Red Cross Movement is the world's largest humanitarian network. In Norway, the Red Cross has over 133,000 members involved in activities such as search and rescue, provision of Health and Care services and National Preparedness. Subsea 7 supports their work through company donations and encouraging our people to get involved as volunteers and/or to make private donations.


## AFGoM

Subsea 7 supports SOS Children in Benguela, Angola. SOS Children is the world's largest charity for orphan and abandoned children. It places the children with a family in a home within an SOS Children's Village which has educational and medical care provided.

In Equatorial Guinea, the Mobil Installation Project Team supported the setting-up of an After School Programme through a jointly sponsored initiative with ExxonMobil, raising nearly $50,000 for the project.

In Nigeria, Subsea 7 has an ongoing socio-economic programme in the Delta and Akwa Ibom States, including the renovation and construction of schools, community halls and commercial premises.

## Brazil

The Territory has a long culture of investing in its surrounding communities through programmes such as “Future Island” and “Tree House”. In 2011 Subsea 7 added two new community development initiatives to its existing programme. One was giving financial support to a progressive project called “Swimming in the Sea”, based in the local Rio das Ostras area where Subsea 7 has a base. This project makes a major contribution to local beach safety by giving swimming lessons to over 450 residents of all ages.

Another new initiative, “Voluntary Action 7”, was launched to encourage more personnel to offer their time and skills to community actions, with Subsea 7 matching volunteers with the most compatible charities and causes.


## APME

Subsea 7's Perth office in Western Australia adopted Radio Lollipop in the city's Princess Margaret Hospital for Children (PMH) as its principal community involvement initiative for 2011. Radio Lollipop is an international organisation dedicated to providing play and entertainment services for sick children and young people. Subsea 7 employees volunteered their services to Radio Lollipop for one evening every week, entertaining the young patients through radio programmes, arts and crafts and themed play activities.

The Perth office also presented a supporting donation to PMH, and the crew of *Sapura 3000* chose the Princess Margaret Foundation as the main beneficiary of funds raised through the successful completion of the vessel's nominated safety programme.

## Offshore

As the owner and operator of a large fleet of vessels, we acknowledge our obligation to responsible stewardship in all our marine operations. During 2011 we introduced a Clean Operations initiative to stimulate energy reduction across our fleet. Clean Operations focuses on increasing awareness of the importance of marine energy efficiency, and recognising ways of reducing wasteful consumption of resources. This has resulted in significant energy savings and a reduction in marine engine air emissions.

# TODAY'S INDUSTRY CHALLENGES ARE SUBSEA 7'S OPPORTUNITIES

Subsea 7's core strengths position us for global growth.


**Industry challenge**
Deeper water and more challenging environments

**Our opportunity**
Proven expertise and global track record

**Industry challenge**
Growing size and complexity of large EPIC contracts

**Our opportunity**
Engineering and project management capabilities

**Industry challenge**
Shortage of resources in a growing global market

**Our opportunity**
Fleet size, flexibility and capability

**Industry challenge**
Meeting local content requirements

**Our opportunity**
Cultural diversity and supporting local supply chains

**Industry challenge**
Risk management and reliability

**Our opportunity**
Reliability through “one way of working”

Our Growth Credentials

# PROVEN EXPERTISE AND GLOBAL TRACK RECORD

Over 30 years of practical experience, technical innovation and dedication to improving safety performance.

## Industry challenge:

As the quest for new hydrocarbon reserves moves into deeper waters and harsher environments, oil and gas companies rely more than ever on subsea contractors who can demonstrate their technical capability and expertise in these challenging conditions.

## Our credentials:

Subsea 7 possesses a unique range of experience and knowledge in every aspect of seabed-to-surface projects. Our track record extends from pioneering subsea developments to landmark EPIC projects and Life-of-Field operations in both established and frontier territories – Africa, Asia Pacific, Australia, Brazil, the Gulf of Mexico, the North and Norwegian Seas and others.

Clients rely on our specialist expertise, built on over 30 years of experience, technical innovation and dedication to safety performance to ensure delivery of projects safely, on time and within budget.

Safety is one of our core values, and our commitment to effective safety management and leadership underpins everything we do.

Combined with substantial investments in people, vessels, technologies and assets, our track record makes Subsea 7 a recognised and trusted strategic partner for energy companies around the world.

Through consistently meeting greater technical challenges and delivering to the highest service levels, we have a reputation for combining the highest levels of technical capability and operational expertise.

We achieve this through our ability to bring together integrated teams of experts in many diverse fields – world-class engineers, project managers, supply chain and logistics experts and technological specialists in all seabed-to-surface disciplines.

This collective expertise enables us to add value through creative thinking and innovation, deploying our experience and judgement to secure project success, while ensuring rigorous management of risk in every phase of operation.

Our specialist expertise extends right across the spectrum of seabed-to-surface projects – every aspect of design, fabrication, installation and commissioning, varying size and complexity and in all water depths.

We harness and share this expertise throughout the Group via an expert network of Communities of Excellence, an innovative global resource of technical authority.

Our expertise and track record are important strategic differentiators in the marketplace, setting us apart from competitors and less integrated providers of offshore services.

## The opportunity:

To build on our clients' confidence in us as a trusted long-term strategic partner.

Our Growth Credentials

# ENGINEERING AND PROJECT MANAGEMENT CAPABILITIES

The scale and experience of these resources give us a distinct competitive advantage.

## Industry challenge:

In recent years, EPIC contracts have grown in scale and value, and require subsea solution partners with a higher level of capability to successfully design, plan and deliver complex, long-term projects.

## Our credentials:

Subsea 7's track record in large-scale project delivery is the main foundation for our growth. We are able to harness and leverage the many years of technical knowledge, practical experience and process refinement acquired and built up by our engineers, technical experts and project managers.

With over 1,500 engineers deployed across the Group, Subsea 7 possesses a substantial in-house resource capable of consistently pushing back the boundaries of subsea technologies to deliver effective and innovative solutions to our clients.

The scale of this engineering resource gives us a distinct competitive advantage, not only in our overall global design and engineering capability, but also in our versatility, where we have wide-ranging experience right across the spectrum of subsea operations, including the full suite of pipeline installation techniques – Reel-lay, S-lay, J-lay, Bundle-lay and Flex-lay.

We standardise our project management processes on a global basis, drawing on best-practice from every Territory in which we operate to ensure our clients can count on reliability, consistency and repeatability in our project delivery, regardless of local circumstances.

We use a powerful online tool to capture and standardise the many project management processes for tenders and projects. This tool records best practices on a global basis, and ensures that projects are fully aligned with Subsea 7's Business Management Systems.

Our project managers assemble multidisciplinary, integrated project teams combining international and local skills to manage the specific demands of each project. These teams are able to rely on experienced logistical support, strategic supply chain management and the world-class assets required to execute each project safely, on schedule, on budget, and to agreed standards, time after time.

Through our project management expertise we add value to every phase of the project lifecycle – from planning and design through fabrication, construction and installation to commissioning, operation and decommissioning.

To sustain these capabilities, we continue to grow and develop our professional competencies in engineering and project management, with an active training programme and global access to a wide-ranging Learning and Development infrastructure right across the Group.

## The opportunity:

To build our share of the global EPIC market.

Our Growth Credentials

# FLEET SIZE, FLEXIBILITY AND CAPABILITY

Our growth strategy is underpinned by our ability to deploy our vessels and our people on a worldwide basis.

## Industry challenge:

The offshore energy industry is currently experiencing very high levels of activity, leading to increasing demands on limited assets and experienced people.

## Our credentials:

The Subsea 7 fleet is managed, crewed and operated by some of the most experienced onshore and offshore marine personnel in the industry.

Being able to operate and manage a fleet of over 40 high-specification vessels allows us to strategically deploy our enabling vessels on projects on a worldwide basis and be highly responsive to specific local project requirements.

We can also demonstrate our ability to manage this resource with over 6,000 of our people working in, or supporting, our offshore operations. This depth of expertise, with a variety of skills and capability, is key to the effective management of such a worldwide resource, and allows us to deliver consistently high standards of local flexibility and project reliability, in a range of water depths and conditions.

Ongoing investment, well in excess of $2 billion in recent years, has enabled us to augment and enhance our world-class fleet of vessels and ROVs.

Strategic vessel scheduling also optimises fleet efficiency through managing transits and vessel maintenance.

Combined with a number of dedicated Vessel Support Teams (VSTs), our global operations are set up to deliver seamless and safe support to projects through retained vessel and product knowledge.

VSTs comprise engineers, installation analysts, vessel supervisors, equipment support teams and other specialist disciplines who provide integrated vessel services from tender support through mobilisation and product support to safe offshore installation.

Similar principles of flexibility and global capability underpin the operation of the Group's fleet of over 175 ROVs. This is one of the largest and most advanced ROV fleets in the world, capable of working in ultra-deep waters up to 4,000 metres, and across a wide range of challenging subsea environments.

The ROV fleet ranges from observation-class ROVs to purpose-built drilling support vehicles and high-powered construction-class systems, and has sufficient global versatility to meet clients' requirements on subsea projects anywhere in the world.

## The opportunity:

To deploy the scale, versatility and flexibility of our enabling assets and people to take advantage of high levels of seabed-to-surface activity globally.

Our Growth Credentials

# CULTURAL DIVERSITY AND SUPPORTING LOCAL SUPPLY CHAINS

We are committed to a strong, long-term local presence in our Territories.

## Industry challenge:

To develop skills and knowledge and grow local supply chains through long-term in-country presence.

## Our credentials:

We never forget that it is the calibre of our people – their diversity, expertise and professionalism – that makes us a leader in our industry. Subsea 7 has a multicultural workforce of over 70 different nationalities, onshore and offshore.

Our growth strategy is firmly based on a commitment to establishing a strong, long-term local presence in our Territories.

We believe that making significant long-term investments in attracting, training, developing and retaining skilled local people is the key to the sustainable development of local businesses.

We run effective recruitment campaigns in many of our Territories to attract new talent, either at graduate level or aimed at converting skilled engineers and technicians from other industries.

Our onshore and offshore operations and facilities offer significant employment opportunities to local people who want to develop their skills and prospects.

Our people are encouraged to take full advantage of the wide-ranging learning and development facilities throughout the Group, not only to improve their performance, but also to fulfil their potential. Subsea 7 is proud to be recognised as a global employer committed to learning and development.

Similarly, we work closely with our local supply chain and service providers to ensure they have suitable support, training and guidance from us to develop and sustain their own resources. In this way, we establish robust networks of trusted local partners in all our Territories.

We optimise locally managed operations in our Territories, and have successfully devolved many of our project management and supporting disciplines in recent years into our local offices.

To achieve consistency across our diverse global operations, all our Territories are guided by the same five Group values – Safety, Integrity, Innovation, Performance and Collaboration.

Subsea 7's workforce is a winning blend of local and international talent – focused, ambitious and self-motivated. Their technical capability, professional expertise and operational versatility are the key to Subsea 7 achieving its growth ambitions.

## The opportunity:

To build an established, long-term presence in our Territories through developing local people and guiding and supporting the local supply chain.

Our Growth Credentials

# RELIABILITY THROUGH "ONE WAY OF WORKING"

Using Process and Knowledge Management to operate efficiently, consistently and safely.

## Industry challenge:

Delivering performance reliability and the effective management of risk and uncertainties to all our clients.

## Our credentials:

In an era of increasingly large and complex subsea projects, it is vitally important that we can capture, share and use the substantial process know-how and technical knowledge base that exists throughout Subsea 7.

Subsea 7's Process and Knowledge Management network is an advanced set of integrated processes, tools and support systems designed to enable the highest levels of organisational intelligence and ensure the Group operates efficiently, consistently and safely on a global basis.

Web-based resources and technologies give our people instantaneous global access to the information they need to optimise the delivery of technically robust and competitive tenders, and to execute their projects. These resources range from specialist technical help and advice to benchmark data and project records.

To support our growth, we use a Business Management System to guide the alignment of established processes throughout the Group. "One way of working" gives major efficiencies and great international flexibility, allowing us to deploy people around the world, minimise re-training and run operations in multiple locations globally, while still effectively self-monitoring compliance and improvement.

One key area of Subsea 7's knowledge management is to provide a mechanism for our engineering experts to deliver global support to local projects and tenders.

To achieve this, Subsea 7 has set up an expert support network called Communities of Excellence (COEs). COEs are dedicated to a specific engineering or related discipline. In addition to their core remit of establishing systems for technical reference, knowledge-sharing and engineering support, each COE also assists our R&D, Supply Chain Management and Sales and Marketing functions.

Each COE has direct Territorial representation to facilitate accessibility, and ensure the appropriate content can be delivered to the right people at the right time so they can make the best decisions, develop business opportunities and promote innovative ideas.

The COEs are recognised internally as world-class technical authorities in their respective fields, offering easy access to definitive engineering best-practice reference documents, wide knowledge-sharing repositories and, when required, first-hand personal expert support.

All these resources are designed to maximise Subsea 7's competitive advantage in a dynamic industry through the efficient sharing of experience, improved quality of decision-making and the establishment of strong working relationships throughout the Group.

## The opportunity:

To confirm our global capability to deliver projects reliably and consistently, based on effective process and knowledge management throughout the Group.

# Board of Directors

## Kristian Siem, 1949
Chairman [2,3]

**Appointment:** Mr Siem is Chairman of Subsea 7 S.A.

He became Chairman in January 2011, prior to which he was Chairman of the Board of Directors of Subsea 7 Inc. since January 2002.

**Skills and experience:** Prior to his current appointment Mr Siem was Chairman of the Board of Directors of Subsea 7 Inc. since January 2002. He has a degree in Business Economics and has been active in the oil and gas industry since 1972.

**External appointments:** Mr Siem is the Chairman of Siem Industries Inc. and Siem Industrikapital AB. Mr Siem is a Director of Siem Offshore Inc., Star Reefers Inc., North Atlantic Smaller Companies Investment Trust plc and Frupor S.A. He was also a Director of Transocean Inc. until December 2008.

Mr Siem is a Norwegian citizen.

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

**Appointment:** Sir Peter Mason KBE FREng is the Senior Independent Director of Subsea 7 S.A. since January 2011, prior to which he was Chairman of Subsea 7 S.A. Previously he served as an Independent Director of Subsea 7 S.A. since October 2006.

**Skills and experience:** 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 Institute of Civil Engineers and holds a Bachelor of Science degree in Engineering.

**External appointments:** 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.

## Jean Cahuzac, 1954
Chief Executive Officer

**Appointment:** Mr Cahuzac is Chief Executive Officer of Subsea 7 S.A. He was appointed Chief Executive Officer of Subsea 7 S.A. in April 2008 and has been an Executive member of the Board since May 2008.

**Skills and experience:** 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 is a French citizen.

## Dod Fraser, 1950
Independent Director * [1]

**Appointment:** Mr Fraser joined the Board of Subsea 7 S.A. in December 2009.

**Skills and experience:** 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.

**External appointments:** 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.

## Robert Long, 1946
Independent Director * [3]

**Appointment:** Mr Long joined the Board of Subsea 7 S.A. in January 2011.

**Skills and experience:** 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.

**External appointments:** Mr Long has no other external appointments to public companies.

Mr Long is a US citizen.

## Arild Schultz, 1944
Director [3]

**Appointment:** Mr Schultz joined the Board 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.

**Skills and experience:** 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.

**External appointments:** Mr Schultz has no other external appointments to public companies.

Mr Schultz is a Norwegian citizen.

## Allen Stevens, 1943
Independent Director [*2]

**Appointment:** Mr Stevens joined the Board 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.

**Skills and experience:** 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.

**External appointments:** Mr Stevens is Chairman of the Board of Directors of Trailer Bridge Inc. and a Vice President of Masterworks Development Corporation, a hotel developer and operator.

Mr Stevens is a US citizen.

## Trond Westlie, 1961
Independent Director [*1]

**Appointment:** Mr Westlie joined the Board of Subsea 7 S.A. in June 2004.

**Skills and experience:** 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).

**External appointments:** In addition to the above-mentioned positions in A.P. Møller-Maersk A/S, Mr Westlie is also a Board member of Danmark Skibskredit A/S.

Mr Westlie is a Norwegian citizen.

### Committee membership
1 Audit Committee

2 Governance and Nomination Committee

3 Compensation Committee

### Independent Directors
* As used above, 'independence' is as defined in the Relationship Agreement, dated 20 June 2010 among Subsea 7 Inc., Subsea 7 S.A. and Siem Industries Inc., which is relevant during the standstill period of 30 months from the date of the Relationship Agreement. Additionally, at all times, including from the end of the standstill period, the Board must satisfy the rules and codes of corporate governance of the Oslo Børs on which Subsea 7 S.A. is listed.

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 Kristian Siem, Sir Peter Mason KBE FREng, Mr Jean Cahuzac and Mr Robert Long will expire at the Annual General Meeting to be held in June 2012. The current term of the remaining Directors, Mr Dod Fraser, Mr Arild Schultz, Mr Allen Stevens and Mr Trond Westlie, will expire at the Annual General Meeting in June 2013. Under the Company's Articles of Incorporation, the Board must consist of not fewer than three Directors.

# Executive Management Team

From left to right: Jean Cahuzac, Simon Crowe, John Evans, Graeme Murray, Keith Tipson, Steve Wisely

## Jean Cahuzac, 1954

### Chief Executive Officer

**Appointment:** Jean 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 Cahuzac's full biography is included under "Board of Directors" on page 34.

## Simon Crowe, 1967

### Chief Financial Officer

**Appointment:** Simon Crowe has been Chief Financial Officer of Subsea 7 S.A. since October 2009.

**Skills and experience:** Prior to joining Subsea 7 S.A., Mr Crowe held senior financial, strategic and corporate finance positions across a range of industries, including several international energy companies in a number of locations around the world including London, Geneva, Houston, Paris and Singapore. His most recent role prior to joining Subsea 7 S.A. was at Transocean as Vice President, Strategy & Planning, and previously he was Finance Director of Transocean's Europe & Africa Business.

Mr Crowe holds a degree in Physics from Liverpool University and is a member of the Chartered Institute of Management Accountants in the UK. Mr Crowe is a British citizen.

## John Evans, 1963

### Chief Operating Officer

**Appointment:** John Evans has been Chief Operating Officer of Subsea 7 S.A. since January 2011.

**Skills and experience:** Mr Evans has over 25 years of experience in the oil & gas engineering and contracting sector, eight of these as Chief Operating Officer. During 18 years with Kellogg Brown & Root ('KBR') he gained a successful record in general management, commercial and operational roles in the offshore oil and gas industry. Between 2002 and mid-2005 he was Chief Operating Officer for KBR's Defence and Infrastructure business in Europe and Africa. From July 2005 to January 2011, he was Chief Operating Officer of Subsea 7 Inc.

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.

## Graeme Murray, 1968

### General Counsel

**Appointment:** Graeme Murray has been General Counsel for Subsea 7 S.A. since January 2011.

**Skills and experience:** In the early part of his career Mr Murray spent six years as a solicitor in private practice before joining KLM where he worked on aircraft finance and lease transactions. He then joined Coflexip Stena where he worked on general subsea contracts. Following his time at Coflexip Stena he joined Halliburton where amongst other activities he led the legal process for establishing the Halliburton DSND joint venture (subsequently renamed Subsea 7 Inc.). From May 2002 to January 2011, he was General Counsel and, from 2009, additionally Vice President Commercial & Procurement at Subsea 7 Inc.

Mr Murray has a Law Degree from the University of Aberdeen, is a solicitor admitted to practice by the Law Society of Scotland and is a Notary Public. Mr Murray is a British citizen.

## Keith Tipson, 1958

### Executive Vice President – Human Resources

**Appointment:** Keith Tipson has been Executive Vice President – Human Resources for Subsea 7 S.A. since January 2011.

**Skills and experience:** Mr Tipson's previous experience in the engineering project sector was with the Dowty group and Alstom where he held a number of roles based in Belgium, France, Switzerland and UK, latterly holding the position of Senior VP Human Resources, Power Sector in Paris. From November 2003 to January 2011 he was Corporate Vice President Human Resources for Subsea 7 S.A.

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

## Steve Wisely, 1962

### Executive Vice President – Commercial

**Appointment:** Steve Wisely has been Executive Vice President – Commercial of Subsea 7 S.A. since January 2011.

**Skills and experience:** Mr Wisely has held a number of commercial and operational positions with Subsea 7 Inc. and its predecessor companies since 1987, in the UK and overseas. In the early 1990s Mr Wisely held the position of Commercial Manager in Norway before returning to the UK where he held a number of roles in the commercial function. Moving to Singapore in 1997 he progressed to the position of Regional VP Asia Pacific before returning to the UK to the role of Regional VP UK and then VP Global Business Acquisition from October 2006 to October 2007 before returning to Asia Pacific to oversee the dissolution of the TS7 joint venture and re-establishment of Subsea 7 in the territory. From January 2010 to January 2011 he was Executive VP – Commercial at Subsea 7 Inc.

Mr Wisely is a graduate of Robert Gordon University in Aberdeen with a degree in Quantity Surveying. Mr Wisely is a British citizen.

Corporate Governance

# POSITIONED FOR GROWTH THROUGH STRONG CORPORATE GOVERNANCE

The Board 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 in page 4. Corporate Social Responsibility is embedded in these values and the Group's Code of Conduct enforces these values.

### Corporate governance at Subsea 7

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

The Board 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 is proactively to encourage, monitor and safeguard this governance culture. The Board and its Committees oversee the management of the Group's operations and the effectiveness of Subsea 7's internal controls.

The work of the Board is based on the existence of a clearly defined division of roles and responsibilities between the shareholders, the Board and the Group's Executive Management Team.

Our governing structures and controls help to ensure that we run our business in an appropriate manner for the benefit of our shareholders, employees and other stakeholders in the societies in which we operate.

### 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 our 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 the Oslo Børs and ADRs traded over-the-counter in the US, Subsea 7 S.A. is subject to Luxembourg law and regulation with respect to corporate governance. As a company listed on the Oslo Børs, the Company follows the Norwegian Code of Corporate Governance (the 'Code') for non-Norwegian incorporated companies on a 'comply or explain' basis, where this does not contradict Luxembourg laws and regulations. The Code is available at http://www.nues.no/English/The Norwegian Code of Practice for Corporate Governance.

The Company delisted from NASDAQ Global Select Market on 7 March 2011 and filed for deregistration from the SEC on 8 March 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 Code.

### 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 meetings which the Executive Management Team attend to present on 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.

We have defined our values around five key principles:
Safety, Integrity, Innovation, Performance and Collaboration.

Further to the five values, the Group has a Code of Conduct which reflects its commitment to shareholders, customers and employees to conduct business legally and with integrity and honesty. The Code of Conduct was approved by the Board prior to issue to all directors, officers and employees and is subject to periodic review and updating and is available on the Subsea 7 website: www.subsea7.com.

### 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 all shares, stocks, debentures, bonds or securities; the acquisition 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 has set clear 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 remotely operated vehicles and tooling services to support exploration and production activities.

The VERIPOS division provides precise navigation and positioning services to the marine industry.

Further details of the Group's business are outlined in the *What we do* section on pages 2-3.

## Equity and dividends

### Shareholders' equity

Total shareholders' equity at 31 December 2011 was $5.78 billion (2010: $1.20 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 an increase in the value of the shares and dividend payments. The Board recommends shareholders approve a special dividend of $0.60 per share, which will be paid to shareholders in July 2012. This dividend is subject to approval by shareholders at the 2012 AGM in June 2012.

### Equity mandates

At the 2011 Annual General Meeting, 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, in accordance with the Articles of Incorporation. This authority is subject to certain conditions and applies to purchases completed on or before 26 May 2016. Such a mandate, valid for 5 years, is acceptable 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 the 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 the 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.

### Related party transactions

The Board of Directors will, from time to time, determine the necessity of obtaining third party valuations on transactions with related parties.

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 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 the 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 annual general meeting ('AGM') is held each year, 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 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.

The Company Secretary ordinarily chairs the AGM. However, if a majority of the shareholders request an alternative independent chairman, one would be appointed.

All directors are encouraged to attend the AGM. The AGM of shareholders elects the Board of Directors for nominated terms of appointment, approves the Annual Report and financial statements of the Group and Company, appoints the external auditor and determines the remuneration of the auditor. The Chairman of the Board is elected by the directors annually.

### Nomination committee

The Board of Directors has established a Corporate Governance and Nominations Committee. The procedure applying to this Committee is in compliance with Luxembourg law and is deemed most appropriate for the Company. The composition of this Committee is for the Board of Directors to determine. The Chairman of the Corporate Governance and Nominations Committee is Sir Peter Mason KBE FREng, Senior Independent Director. 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 comprises eight directors, the majority of whom are independent.

| Board Members | |
|---|---|
| • Kristian Siem | Chairman |
| • Sir Peter Mason KBE FREng | Senior Independent Director |
| • Jean Cahuzac | Chief Executive Officer |
| • Dod Fraser | Independent Director |
| • Robert Long | Independent Director |
| • Arild Schultz | Director |
| • Allen Stevens | Independent Director |
| • Trond Westlie | Independent Director |

Biographies of the individual directors are detailed on pages 34-35.

'Independence' is as defined in the Relationship Agreement, dated 20 June 2010, among Subsea 7 Inc., Subsea 7 S.A. and Siem Industries Inc., which is relevant during the standstill period of 30 months from the date of the Relationship Agreement.

Mr Cahuzac, the Chief Executive Officer ('CEO'), was first appointed to the Board in May 2008. The Board operates controls to ensure that no conflicts of interest exist in this regard, including, but not limited to, the establishment of the Compensation Committee and Audit Committee. As the Committee Charters do not permit executive management to be members of the Board Committees, 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 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, the Board of Directors seeks to consult with the Company's major shareholders.

Directors are elected by the general meeting for a term not exceeding two years. Directors need not be shareholders and may be re-elected. The general meeting may dismiss any director at any time notwithstanding any agreement between the Company and such director, with or without cause. Such dismissal may not prejudice the claims that such 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.

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 twenty-two 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 and its Committees during 2011 is summarised below:

#### 2011 Meetings

| | Board | Audit Committee | Governance and Nomination Committee | Compensation Committee |
|---|---|---|---|---|
| Kristian Siem | 10/10 | | 1/1 | 6/6 |
| Sir Peter Mason KBE FREng | 10/10 | | 1/1 | |
| Jean Cahuzac | 10/10 | | | |
| Mel Fitzgerald[1, 2] | 10/10 | 3/4 | | |
| Dod Fraser | 10/10 | 4/4 | | |
| Bob Long | 10/10 | | | 6/6 |
| Arild Schultz | 10/10 | | | 6/6 |
| Allen Stevens | 9/10 | | 1/1 | |
| Trond Westlie | 8/10 | 4/4 | | |

1 Mr Fitzgerald resigned from the Board of Directors of Subsea 7 S.A. on 5 March 2012.

2 Mr Fitzgerald was appointed to the Audit Committee on 1 April 2011

The directors of the Board are encouraged to hold shares in the Company which the Board believes promotes a common financial interest between the members of the Board of Directors and the shareholders of the Company.

### The work of the Board of Directors

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 review and monitoring of the Group's current year financial performance. In 2012, the Board 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 36. The Executive Management Team has the collective duty to implement Subsea 7's strategic, financial and other objectives, as well as to safeguard the Group's assets, organisation and reputation.

The Board receives appropriate, precise and timely information on the operations and financial performance of the Group from the Executive Management Team, which is imperative for the Board to perform its duties.

# Corporate Governance

In addition to the previously mentioned Corporate Governance and Nominations Committee, the Board has established a Compensation Committee and an Audit Committee, each of which has formal terms of reference and Charters approved by the Board of Directors. The Committees' Charters are available on the Subsea 7 website: www.subsea7.com. 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 work of these Committees is explained in the later sections on 'Remuneration of the executive management' and 'Auditor' respectively.

The performance of the Board of Directors is monitored and reviewed to ensure the composition and the way in which the directors function both individually and as a collegiate body is effective and efficient.

### Risk management and internal control

The Board 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 page 45.

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 affecting each Territory and business unit, including their key risks, health and safety performance, legal and financial matters.

The Group maintains a comprehensive annual planning and management reporting system and a detailed annual budget is prepared in advance of each year and supplemented by revised forecasts during the course of the year. Actual financial results are reported to the Executive Management Team monthly and to the Board of Directors quarterly and compared to budget, revised forecasts and prior year results.

The Board reviews and approves reports on actual and projected financial performance.

The Board derives further assurances from the reports from 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 FREng and Mr Westlie) were previously awarded, and continue to hold, share options and/or restricted shares. The remuneration of the Board of Directors is approved at the AGM annually 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 Group's remuneration policy is set by the Compensation Committee. The policy is designed to provide remuneration packages which would 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.

Executive 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 fiscal period and, in specific instances, the total award available to certain individuals.

#### Chief Executive Officer remuneration

The remuneration package of the Chief Executive Officer was determined by the Board, on the recommendation of the Compensation Committee. As noted above, the compensation of the Chief Executive officer 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 below and on page 41:

#### Share options held by the Executive Management Team as at 15 March 2012

| Name | Date of Grant | Number of Options | Exercise Price | Date of Expiry |
|---|---|---|---|---|
| Simon Crowe | | Nil | | |
| John Evans | | Nil | | |
| Graeme Murray | | Nil | | |
| 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 | 11 Mar 2018 |
| Steve Wisely | | Nil | | |
| **Total** | | **61,500** | | |

## The interests of the Executive Management Team in the share capital of the Company as at 15 March 2012

| Name | Total Performance Shares[a] | Total Owned Shares | Total Restricted Shares[a] |
|---|---|---|---|
| Simon Crowe | 59,000 | 17,703 | Nil |
| John Evans | Nil | 1,141 | 136,674 |
| Graeme Murray | Nil | 1,112 | 28,399 |
| Keith Tipson | 42,000 | 13,836 | Nil |
| Steve Wisely | Nil | Nil | 96,559 |
| **Total** | **101,000** | **33,792** | **261,632** |

(a) Total performance shares and restricted shares held represents the maximum award assuming all conditions are met.

## The interests of the Directors in the share capital of the Company as at 15 March 2012

| Name | Total Performance Shares[b] | Total Owned Shares | Total Restricted Shares[b] |
|---|---|---|---|
| Kristian Siem[a] | Nil | Nil | Nil |
| Sir Peter Mason KBE FREng | Nil | 10,000 | Nil |
| Jean Cahuzac | 105,000 | 74,858 | Nil |
| Dod Fraser | Nil | 2,000 | Nil |
| Robert Long | Nil | Nil | Nil |
| Arild Schultz | Nil | 500,000 | Nil |
| Allen Stevens | Nil | 10,650 | Nil |
| Trond Westlie | Nil | Nil | Nil |
| **Total** | **105,000** | **597,508** | **Nil** |

(a) As at 15 March 2012, Siem Industries Inc. which is a company controlled through trusts where certain members of Mr Siem's family are potential beneficiaries, owned 69,731,931 shares, representing 19.82% of issued shares.

(b) Total performance shares and restricted shares held represents the maximum award assuming all conditions are met.

## Share Options held by the Directors as at 15 March 2012

| Name | Date of Grant | Number[a] | Exercise Price | Date of Expiry |
|---|---|---|---|---|
| Sir Peter Mason KBE FREng | 21 Nov 2006 | 5,000 | NOK 124.50 | 20 Nov 2016 |
| Jean Cahuzac | 13 Apr 2008 | 100,000 | NOK 123.00 | 13 Apr 2018 |
| 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 |
| **Total** | | **120,000** | | |

(a) Represents the number of common shares awarded.

### 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 series of 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.

### 2009 Long-Term Incentive Plan

The 2009 Long-Term Incentive Plan was approved by the Company's shareholders at the Extraordinary General Meeting on 17 December 2009. The 2009 LTIP is an essential component of the Company's compensation policy, and was designed to place the Company 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 the performance conditions set out below, and vest after at least three years.

Performance conditions are based on relative Total Shareholder Return ('TSR') against a specified comparator group of 10 companies determined over a three-year period. The Company would have to deliver TSR above the median for any awards to vest. At the median level, only 30% of the maximum award would vest. The maximum award would only be achieved if the Company achieved top decile TSR (i.e. if, when added to the comparator group, the Company was first in terms of TSR performance). In addition, individual award caps have been introduced. 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 his or her annual base salary as of the first day of said year. Additionally, a holding requirement for senior executives has been introduced. Senior executives must hold 50% of all awards that vest until they have built up a shareholding of 1.5x salary, which must be maintained.

During 2011, awards were made over 537,500 performance shares, subject to the 2009 LTIP's performance conditions, in conjunction with which 331,000 were transferred to an Employee Benefit Trust at the closing share price on the Oslo Børs on 12 August 2011. The fair market value per share on the date of the award was NOK 124. The 2009 LTIP currently covers approximately 120 senior managers and key employees. Grants are determined by the Company's Compensation Committee, which is responsible for operating and administering the plan. 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.

## Corporate Governance

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

### Information and Communication

Subsea 7 S.A.'s Board of Directors concurs with the principles of equal treatment of all shareholders and the Company is committed to reporting financial results and other information on 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 the Oslo Børs and Luxembourg 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 with most aspects of the Oslo Børs' 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, and it is obliged to act professionally and in accordance with the applicable principles for good corporate governance if a situation were to arise in which this principle in the Code is put to the test.

### Audit Committee

Each of the Audit Committee members meet the independence requirements under Luxembourg law.

#### Key duties

The terms of reference of the Audit Committee satisfy the requirements of applicable law and are in accordance with the Articles of Incorporation. The Audit Committee's responsibilities include:

- to monitor the effectiveness of the Group's internal control, internal audit and, where applicable, risk management systems;
- to monitor the statutory audit of the Company's annual accounts and the Consolidated Financial Statements of the Group;
- to review the quarterly, half-yearly and annual financial statements before their approval by the Board;
- to review and monitor the independence of the auditor of the Group, and in particular with respect to the provision of additional non-audit services to the Group; and make recommendations with respect to the selection and the appointment of the Group's auditor;
- to review the report from the auditor on key matters arising from the statutory audit;
- to deal 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; and
- to review the disclosure of transactions involving related parties.

The Committee is chaired by Trond Westlie who is currently Chief Financial Officer (CFO) of AP Møller Maersk, and was previously CFO of Telenor Group. The Board has determined that Trond Westlie is the Audit Committee financial expert and competent in accounting and audit practice with recent and relevant financial experience.

The Audit Committee's Terms of Reference require that the Committee shall consist of not less than three Directors and that all members of the Audit Committee are independent and eligible pursuant to home country (Luxembourg) rules. The Audit Committee meets at least four times a year, and its meetings are attended by representatives of the external independent auditor and by the head of the Internal Audit function.

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

### Auditor

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 Group's auditor. The Audit Committee Charter details the terms of reference for the Audit Committee.

The Group's auditor meets the Audit Committee annually regarding the planning and preparation of the audit of the Consolidated Financial Statements. The Audit Committee members hold separate discussions with the external audit partner 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 auditor to undertake certain other non-audit assignments. Fees paid to the 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 Group's auditor to confirm annually in writing that the auditor is independent.

## Directors' Responsibility Statement

We confirm that, to the best of our knowledge, the financial statements for the period from 1 December 2010 to 31 December 2011 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 Annual Report includes a true and fair overview of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties facing the Company and the Group.

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

**Kristian Siem**
Chairman

15 March 2012

**Jean Cahuzac**
CEO and Director

15 March 2012

Risk Management

# 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 business, financial condition or results of operations of the Group could be adversely affected in a material way. 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 business, results of operations and financial condition.

### 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, development and production of offshore oil and gas. Offshore oil and gas field capital expenditures are also 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
- the discovery rate of new offshore oil and gas reserves
- the economic feasibility of developing particular offshore oil and gas fields
- the 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
- the 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, and although clients may consider, among other things, the availability and capability of equipment and the reputation and experience of the contractor, price is a primary factor in determining which contractor is awarded a contract. Competition could result in pricing pressures, lower sales and reduced margins that would have an adverse effect on the operating results, cash flows and financial condition of the Group.

The Group may experience constraints in its supply chain due to future increases in expenditure by their clients in the industry which could lead to increased competition for resources, such as raw materials, equipment and skilled workers. Such supply chain bottlenecks 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 failure to replace significant long-term projects on similar terms, or a substantial decrease in demand by the Group's significant clients, could result in a substantial loss of revenue which could have a material adverse effect on the business of the Group.

### Strategic Risks

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

- economic and political instability
- increased risk of fraud and political corruption
- boycotts and embargoes that may be imposed by the international community
- requirements for local ownership of operations and requirements to use local suppliers or subcontractors
- 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 cost overruns on projects, which may also result in contractual penalties for which the Group is not reimbursed and sharing of revenues where local ownership is required. 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 adequately and timely to changing technology, market demands and client requirements could adversely affect the Group's business and financial results.

### 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 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.

Certain of these risks are outside the control of the Group. We do, however, focus our efforts on trying to minimise the incidence and impact of these risks by planned maintenance, focus on enforcing our standard contract terms and conditions, especially on larger or more technologically complex projects, comprehensive health and safety policies and ethical guidelines and by having a single 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 the inappropriate behaviour by any of its employees or agents or those of its affiliates. While the Group is committed to conducting business in a legal and ethical manner, there is a risk that its employees or agents or those of its affiliates may take actions that violate the law and could result in monetary penalties against the Group or its respective affiliates and could damage the reputation and, therefore, the ability to do business of the Group.

The Group is exposed to financial and compliance risk 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 be able to fulfil their obligations
- prohibition or limitation on the Group's subsidiaries to be able to transfer/dividend funds to appropriate level 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 we operate
- changes to legislation or to the method of application of existing legislation in the countries in which the Group operates could increase future tax 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 all the time and effort devoted to these estimates, it remains a highly judgemental area and changes to estimates or unexpected costs or recoveries may result in significant fluctuations in profitability calculated by this method.

The Board of Directors has oversight of the Group's risk management activities and internal control processes. Any system of internal control 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 Subsea 7 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.

Formal review process: before the tender package is submitted to the client, it is subject to a disciplined review process. 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 Senior Vice President of the Territory, followed by a detailed review by the appropriate Tender Review Board, depending on tender value.

- Tenders with values below $50 million require approval from the Territory Senior Vice President.
- Tenders with values between $50 million and $100 million require approval from the Executive Vice President – Commercial.
- Tenders with values between $100 million and $250 million require the further approval of the Chief Executive Officer.
- Tenders in excess of $250 million require a further review and approval of the Board.

## 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 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, Internal Audit periodically review tenders for compliance to standard terms.

### Standardisation of approach

The implementation of standard tendering policies has resulted in the information contained in tender review packages being uniform 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, a larger proportion of tenders are reviewed centrally by members of the Executive Management Team and greater emphasis is placed on adherence to the standard contractual terms and conditions. With these policies in place, a significant amount of management time is devoted to the tendering process and, given the costs associated with the tendering process, management is selective of the initiation of new tenders, focusing on those tenders it believes it is well placed to win and which will deliver a positive financial return.

### 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, subject to the appropriate level of approval, results in claims and variation orders, which will be negotiated with the client during the ordinary course of the project, although settlement may follow the completion of the offshore activities.

## Internal Controls

The Board acknowledges its responsibility 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.

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

In particular Internal Audit assists Executive Management by carrying out independent appraisals of the effectiveness of the internal control environment and makes recommendations for improvement, and supports the Group's business management policies. 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 Internal Audit. As of 31 December 2011 no material weaknesses were identified.

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

The Group intends to maintain its focus on improving the control environment within the business and considers it to be a key pillar contributing to an appropriate financial strategy.

# STRONG FINANCIAL PERFORMANCE

2011 was a year of significant achievement for the Group. The Group has built a record backlog of high quality contracts and, following a year of successful integration, Subsea 7 is better positioned for growth than ever before.

Construction and conversion work on *Seven Borealis* continued during 2011, and the vessel is due to be delivered during 2012. In addition, the Group continued with other fleet enhancements throughout the year. Offshore activity started slowly, improved and remained at increased levels through to the end of the year which enabled the Group to deliver a strong financial performance.

## Financial highlights

During the year, the Group's accounting reference date was changed to 31 December. As a result these Consolidated Financial Statements include the Group's results for the 13 months ended 31 December 2011. Comparatives for the 12 months to 30 November 2010 as previously reported; are not entirely comparable with the current period. Consolidated Balance Sheet information is presented as at 31 December 2011 with comparatives as at 30 November 2010.

| For the period ended (in $ millions, except Adjusted EBITDA margin %, share and per share data) | **2011 31 Dec** | 2010 30 Nov Restated |
|---|---|---|
| Continuing operations: | | |
| Revenue | **5,477** | 2,369 |
| Adjusted EBITDA | **1,003** | 559 |
| Adjusted EBITDA % | **18.3%** | 23.6% |
| Net operating income | **641** | 436 |
| Net income | **451** | 268 |
| Backlog | **8,538** | 3,552 |
| Cash and cash equivalents | **803** | 484 |
| Net assets | **5,833** | 1,259 |
| Earnings per share – in $ per share (Diluted) | | |
| Continuing operations | **1.21** | 1.16 |
| Total operations | **1.21** | 1.38 |

Revenue from continuing operations for the period was $5,477 million (2010: $2,369 million) primarily reflecting additional activity resulting from the Combination and good activity levels in the North and Norwegian Seas, West Africa and Brazil.

Gross profit was $946 million (2010: $622 million) reflecting a gross profit margin of 17.3% (2010: 26.2%). The increase in gross profit resulted from additional activity following the combination and high levels of project and offshore activity including the completion of a number of major SURF projects including PazFlor, Angola LNG, Block 17, CWLH and Deep Panuke. In NSMC, the improved gross profit reflects the improved activity, albeit with continued margin pressure from projects awarded in 2009 and 2010, which were offshore during the period, and improved utilisation, offset by the impact of some operational delays due to equipment problems and poor weather, particularly in the second half, which has resulted in slower than anticipated progress on some projects. The reduction in gross profit margin primarily reflects the lower gross profit margin in NSMC and in Brazil arising from the loss recognised on the Guara and Lula NE Project.

Administrative expenses were $404 million (2010: $260 million) reflecting the increased size of the Group following the Combination and include expenses of $63 million relating to integration and restructuring. In addition, tendering costs during the period increased due to the high volume of new opportunities, particularly in NSMC, APME and AFGoM.

The Group's share of results of associates and joint ventures was $104 million (2010: $75 million) including improved contributions from Seaway Heavy Lifting and NKT Flexibles and another strong contribution from SapuraAcergy.

Adjusted EBITDA from continuing operations for the period was $1,003 million (2010: $559 million) resulting in an Adjusted EBITDA margin from continuing operations for the period of 18.3% (2010: 23.6%).

Finance income for the period was $20 million (2010: $10 million), primarily reflecting a net increase in interest earned arising from increased cash balances.

During the period, other gains and losses resulted in a net gain of $7 million (2010: losses of $18 million), mainly due to exchange rate movements, including the Brazilian Real weakening significantly against the US dollar during the period.

Finance costs were $40 million (2010: $29 million), primarily reflecting interest expense from the inclusion of the Subsea 7 Inc. convertible loan notes, interest on the *Seven Havila* facility following delivery of the vessel during the first quarter and fees associated with the $1 billion facility held by the Group.

Net income before taxes from continuing operations for the period was $627 million (2010: $399 million).

Taxation for the period was $176 million (2010: $131 million) resulting in an effective tax rate of 28% (2010: 32%) reflecting the current geographical portfolio mix and additional depreciation charges arising from the fair value adjustments on tangible and intangible assets, partially offset by the recognition of a deferred tax asset of approximately $29 million on US Net Operating Losses (NOLs) and s.163j interest deductions, which had previously not been recognised. The underlying effective tax rate on continuing operations for the period was 35%.

Net income from continuing operations for the period was $451 million (2010: $268 million).

### Allocation of net income

In 2011 net income from total operations was $451 million (2010: $313 million). Net income attributable to equity shareholders of the parent was $424 million (2010: $265 million), with the balance attributable to non-controlling interests of $27 million (2010: $48 million).

### Territory highlights

For the period ended 31 December 2011

| (in $ millions) | **AFGoM** | **APME** | **BRAZIL** | **NSMC** | **CORP** | **Total continuing operations** | **Discontinued operations** |
|---|---|---|---|---|---|---|---|
| Revenue | **2,543** | **181** | **687** | **2,054** | **12** | **5,477** | **–** |
| Net operating income/(loss) from operations | **490** | **18** | **23** | **179** | **(69)** | **641** | **–** |

For the year ended 30 November 2010

| (in $ millions) | AFGoM Restated | APME | BRAZIL | NSMC | CORP | Total continuing operations | Discontinued operations |
|---|---|---|---|---|---|---|---|
| Revenue | 1,396 | 180 | 214 | 568 | 11 | 2,369 | 83 |
| Net operating income from operations | 307 | 84 | 8 | 84 | (47) | 436 | 60 |

#### Africa & Gulf of Mexico (AFGoM)

Revenue for the fiscal year was $2,543 million (2010: $1,396 million) reflecting additional activity from the Combination with Subsea 7 Inc. and good progress on a number of projects, including PazFlor, EGP3B, Oso Re, CLOV, Block 31, Angola LNG and Block 18 GEL, and Sonamet delivered another good contribution.

Net operating income was $490 million (2010: $307 million) as a result of good operational performance across the project portfolio, including PazFlor, Block 31, Angola LNG, Oso Re, Block 17/18, EGP3B and CLOV as well as Sonamet, albeit a lower contribution than 2010, and including the completion of a number of major projects including PazFlor, Angola LNG and Block 17/18.

#### Asia Pacific & Middle East (APME)

Revenue for the period was $181 million (2010: $180 million) reflecting good, albeit lower offshore project activity, including the Woodside CWLH, Kitan, Maersk Qatar and ONGC G1 Projects.

Net operating income was $18 million (2010: $84 million) due to lower project activity with low utilisation of *Rockwater 2,* and higher tendering costs, partially offset by the completion of the Woodside Projects and a good contribution from the SapuraAcergy joint venture, reflecting good progress on the Gumusut Project. Net operating income in 2010 benefited from a higher level of project close-outs than in 2011.

#### Brazil (BRAZIL)

Revenue for the period was $687 million (2010: $214 million) reflecting the seven vessels on long-term service agreements to Petrobras, which achieved strong utilisation during the period, progress on the P-55, GSNC and Guara and Lula NE Projects and the i-Tech Superbid III Project for Petrobras.

Net operating income was $23 million (2010: $8 million), due to good performance from the vessels on long-term service agreements and the i-Tech Superbid III Project, partially offset by losses recognised on the Guara and Lula NE Project.

#### North Sea, Mediterranean & Canada (NSMC)

Revenue for the period was $2,054 million (2010: $568 million) reflecting additional activity from the Combination with Subsea 7 Inc. and high activity levels on a number of projects including Deep Panuke, Siri Caisson, Andrew, Skarv & Idun, Medway, Ensign, Marulk Marine and Laggan Tormore. Life-of-Field operations under the Shell, DSVi, Statoil, ConocoPhillips, Total and BP Frame Agreements performed well during the year.

Net operating income was $179 million (2010: $84 million) primarily due to increased activity including a higher number of vessel days compared to 2010 and improved utilisation, partially offset by the impact of low margins on some projects awarded in 2010 and higher tendering expenses. During the period a number of projects completed. Adverse weather conditions, particularly in the second half, have also impacted these results resulting in lower than scheduled progress on some projects, partially offset by higher utilisation while waiting on weather.

#### Corporate (CORP)

Revenue for the period was $12 million (2010: $11 million).

Net operating loss was $69 million (2010: $47 million) reflecting increased administrative expenses, including integration costs for the period which are reflected in administrative expenses, mainly within this segment. The additional depreciation and amortisation, arising following the fair valuation of the assets and liabilities acquired in the Combination with Subsea 7 Inc., is also shown in this segment. The increased administrative expenses was partially offset by strong contributions from Seaway Heavy Lifting and NKT Flexibles.

#### Discontinued Operations:

Following completion of the Mexilhao Trunkline Project in 2010 there has been no further activity during the year.

# Financial Review

## Backlog

Backlog for continuing operations as at 31 December 2011 was $8.5 billion (2010: $3.6 billion), of which $6.3 billion relates to our SURF activity, $0.9 billion to Life-of-Field, $0.8 billion to Conventional and $0.5 billion to Other.

We expect that $4.2 billion of this Backlog will be executed in 2012, $2.8 billion in 2013 and $1.5 billion in 2014 and thereafter. Backlog excludes associates, joint ventures and discontinued operations.

## Balance sheet

Net assets were $5.8 billion as at 31 December 2011 (30 November 2010: $1.3 billion). The increase is largely as a result of the Combination with Subsea 7 Inc., which included $1.6 billion of net assets, recognised at fair value, and $2.5 billion of goodwill arising as a result of the Combination.

### Goodwill

The acquisition of Subsea 7 Inc. was completed on 7 January 2011. 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. The fair value of each newly issued share was $25.19, resulting in an aggregate market value of shares issued of $3.95 billion.

The acquired assets and liabilities were fair valued in accordance with IFRS 3 at $1.6 billion resulting in goodwill recognised of $2.5 billion. See Note 13 'Business Combination' for further details.

### Assets held for sale

The Sonamet investment remained fully consolidated as at 31 December 2011 although it continues to be classified as 'Assets held for sale'. After the completion of the sale and transfer of shares the business will be deconsolidated from the Group's financial statements and its future results will be reported as 'Share of results of associates and joint ventures'.

### Vessels

### Owned vessels

During the first quarter, *Seven Havila*, the new-build diving support vessel, joined the fleet, and following the completion of sea trials and commissioning of the dive system commenced work in the North Sea in summer 2011. The Seaway Heavy Lifting joint venture took delivery of the new-build DP3 crane vessel, *Oleg Strashnov*, which commenced work in the second quarter on the Sheringham Shoal Windfarm Project.

Following the award of a five-year contract by Petrobras, the Company entered into an agreement to construct a new-build deepwater flexible pipelay vessel, which is expected to be delivered in H2 2014.

During the period, *Polar Queen* was renamed *Seven Mar* and, post year end, *Pertinacia* was renamed *Seven Phoenix*, both in accordance with the respective purchase agreements executed in 2010.

Post year end, *Seven Borealis* sailed from Singapore to Europe to complete her final fit out. Work remains on track for final completion and operational delivery and she is expected to commence operations on the CLOV Project, offshore Angola in Q4 2012.

During the fourth quarter, the Group acquired *Seven Inagha*, a jack-up accommodation and crane barge which is expected to work on fixed platform conventional activities, offshore Nigeria, following her arrival in Q2 2012.

### Chartered vessels

During the second quarter, two vessels, *Grant Candies* and *Chloe Candies*, were chartered to support the three-year contract from BP for Life-of-Field services in the US Gulf of Mexico.

Following the award of a five-year frame agreement with Statoil, *Havila Subsea*, an IMR/survey and light construction vessel joined the fleet and commenced work. *Havila Subsea* is the forerunner vessel to *Seven Viking*, a new-build IMR vessel which was chartered, for an initial term of eight years, and is expected to join the fleet in Q4 2012.

The Group also entered into a four-year charter of *Skandi Skansen*, a trenching support vessel, for 100 days per year plus options, and a three-year charter of *Normand Oceanic*, a construction and flexible pipelay vessel. Both vessels are expected to join the fleet in Q2 2012.

Following the completion of the charter arrangement, *Toisa Polaris* was returned to her owner.

### Capital expenditure

In 2011 additions to property, plant and equipment for continuing operations were $669 million (2010: $593 million).

In addition to the construction and conversion work on Seven Borealis and the purchase and construction of Seven Havila, significant capital expenditure related to construction of ROVs for the i-Tech Superbid III Project for Petrobras and completion of pipelay capabilities on Antares.

The *Seven Havila* was part financed by a NOK 920 million loan agreement with Eksportfinans ASA. All other acquisitions have been funded from existing cash reserves.

### Divestitures

The divesture of *Acergy Falcon*, a rigid pipelay vessel in accordance with the undertakings given to the UK Office of Fair Trading, completed in September 2011.

*Kommandor Subsea* was derecognised when it was leased out on a 36 month bareboat charter and a finance lease receivable was recognised.

During 2011, *Acergy Hawk* was sold for a sales consideration of $9 million.

### Associates and joint ventures

On 20 September 2011 the Boards of NKT Holding A/S and Subsea 7 S.A. announced that they had initiated a formal process to explore strategic alternatives for the future development of NKT Flexibles.

On 3 February 2012 the Boards of NKT Holding A/S and Subsea 7 S.A. announced that they had entered into an agreement to sell NKT Flexibles to National Oilwell Varco (NOV) for a total consideration of DKK 3.8 billion. The transaction is subject to customary closing conditions, including approval from the relevant competition authorities, and is expected to close during the first half of 2012.

### Borrowings

On 11 January 2011, the Group issued a change of control notice relating to the 2011 convertible loan notes issued by Subsea 7 Inc. 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 $300,000 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 $300 million 2.80% convertible loan notes due 2011 issued by Subsea 7 Inc. 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 in the Company were delivered to noteholders on 6 June 2011. These shares were delivered from existing shares held in treasury. The remaining $166.6 million (par value) of notes were redeemed at their accreted principal amount of $168.9 million on 6 June 2011, the final maturity date.

On 16 February 2011 a NOK 920 million loan agreement with Eksportfinans ASA was executed. This facility utilised the guarantee element of the NOK 977.5 million facility and has been used to part finance *Seven Havila*, which was delivered on 23 February 2011.

On 21 February 2011 Subsea 7 Inc. cancelled the outstanding commitments under the revolving credit facilities with DnB NOR Bank ASA ($150 million), HSBC Bank plc ($50 million) and Bank of Scotland plc ($50 million).

### Changes in share capital

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. The fair value of each newly issued share was $25.19, resulting in an aggregate market value of shares issued of $3.95 billion.

The Group acquired 3,000,343 own shares on Combination with Subsea 7 Inc., issued 2,512,135 to holders of convertible notes who converted their notes during the period and repurchased 2,512,135 shares through a buy-back programme at a total cost of $60.0 million.

In 2011 a total of 663,375 share options were exercised (2010: 732,168), raising proceeds of $6.7 million (2010: $4.6 million). The share options exercised during 2011 were satisfied by delivering own shares. No new common shares were issued.

A further 296,328 own shares were used to satisfy share based payment awards during the period (2010: nil).

Additional information on the authorised shares and issued common shares is set out in Notes 25 ‘Issued share capital’ and 26 ‘Own shares’ to the Consolidated Financial Statements.

## Shareholders

Earnings per share for continuing operations for the period was $1.31 (diluted: $1.21) compared to earnings per share of $1.20 (diluted: $1.16) in 2010.

The Company’s 20 largest shareholders, per VPS, at 1 March 2012 were as follows:

| | Type | % |
|---|---|---|
| Folketrygdfondet | | 8.38 |
| Siem Industries Inc. | | 6.81 |
| Deutsche Bank Trust Depository Receipts | Nom | 4.71 |
| Siem Industries Inc. | | 4.09 |
| The Northern Trust C Account Treaty Account | Nom | 3.76 |
| Siem Industries Inc | | 3.33 |
| Subsea 7 Investing (Bermuda) Limited | | 2.95 |
| Siem Industries Inc. | | 2.15 |
| Clearstream Banking | Nom | 2.02 |
| JPMorgan Chase Bank Nordea Treaty Account | Nom | 1.87 |
| DNB Bank ASA Securities Services | Nom | 1.73 |
| DNB Bank ASA Securities Services | Nom | 1.70 |
| State Street Bank An A/C Client Omnibus Fund | Nom | 1.69 |
| JPMorgan Chase Bank Special Treaty Lending | Nom | 1.63 |
| Bank Of New York Mel S/A Mellon Nominee | Nom | 1.59 |
| The Northern Trust C Non-Treaty Account | Nom | 1.25 |
| State Street Bank An A/C Client Omnibus | Nom | 1.19 |
| JPMorgan Chase Bank Omnibus Lending Account | Nom | 1.16 |
| State Street Bank An A/C West Non-Treaty | Nom | 1.13 |
| JPMorgan Chase Bank European Resident | Nom | 1.08 |

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 | 9.2 |

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

## Cash and cash equivalents

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

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov Restated |
|---|---|---|
| Cash and cash equivalents at the beginning of the year | **484** | 908 |
| Net cash generated from operating activities | **580** | 148 |
| Net cash used in investing activities | **(125)** | (484) |
| Net cash used in financing activities | **(94)** | (85) |
| Effect of exchange rate changes on cash and cash equivalents | **(4)** | (60) |
| Movement in cash balances classified as assets held for sale | **12** | 40 |
| Movement in restricted cash balances | **(50)** | 17 |
| Cash and cash equivalents at the end of the year | **803** | 484 |

Cash generated from operating activities was $580 million compared to $148 million in 2010.

Investing activities consumed $125 million in 2011 compared with $484 million in 2010. This decrease was attributable to the cash acquired from Subsea 7 Inc. offset by capital expenditure including construction costs of *Seven Borealis* and *Seven Havila*.

Cash used in financing activities related mainly to the repayment of the 2006 convertible loan notes, the $60 million share buy-back, the payment of dividends to non-controlling interests and interest paid on convertible loan notes during the period offset by new borrowings used to part finance *Seven Havila*.

Restricted cash balances at 31 December 2011 relate mainly to amounts held in escrow for *Seven Havila*.

## Liquidity

At 31 December 2011 the Group had unutilised committed credit and guarantee facilities of $724 million, of which $517 million was available for cash drawings. As at 31 December 2011, the Group had sufficient liquid resources to meet operating requirements for the next twelve months. We continue to monitor our future business opportunities and actively review our credit and guarantee facilities and our long-term funding requirements.

### Cash management constraints

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 obtain remittances from Brazil. Access to the $51.5 million cash that is held by Sonamet is also limited as it requires agreement between the Group and the other shareholders, as well as approval from the National Bank of Angola.

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 maintaining what it believes are adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and aiming to match the maturity profiles of financial assets and liabilities.

The main uncertainties with respect to primary sources of funds are: project related timing of cash inflows and outflows; timing of the costs relating to investment in and expansion of the fleet; the ability to agree with clients, in a timely fashion, the amounts due as claims and variation orders; and the availability of cash flows from joint ventures.

### Covenant compliance

Our 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 must meet the requirements of the financial covenants on a consolidated basis in quarterly intervals on the last day of each fiscal quarter. The Group expects that it will be able to comply with all financial covenants during 2012.

### 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 2011.

### Outlook

While we cannot ignore the general economic and political uncertainties, we continue to see growth opportunities in all of our major markets. 2012 will be a year of progress for Subsea 7. We expect to achieve progress on both revenue and Adjusted EBITDA, ahead of the 2011 result.

In the North Sea, we expect to see increased activity with improved margins year-on-year for those projects which are offshore in 2012 and beyond. Levels of tendering remain very strong.

In West Africa, 2012 will be a year of transition with lower offshore activity on those projects awarded over the past 18 months. We expect a number of major SURF contracts to come to market award during the year, with offshore execution in 2013 and beyond. Conventional activity is expected to remain strong.

Our activity in Brazil is expected to remain strong in the traditional deepwater basins; our new-build PLSV is progressing to plan, with operations expected to commence in 2014. In Q4 2011, we recognised a project-life loss of approximately $50 million on the Guara and Lula NE Project. This project's result has been affected by several factors including the negative impact of our revised spoolbase plans and delays related to Brazilian production of some key suppliers. The Ubu spoolbase is operational and preparing to commence pre-salt related activities. Acceptance of the design and engineering testing is progressing to plan with the client. The technical solution developed for the Project, together with the experience we have gained in the early stages of this project, has prepared us well for future pre-salt developments.

In the Gulf of Mexico, we see an increase of activity with contract awards in 2012 and execution late 2013 and 2014 in a still competitive market.

In Asia Pacific, where the market remains competitive, we expect further gas-driven SURF contracts offshore Australia to be awarded in 2012 with associated offshore activity in 2013 and beyond.

In a growing market, two of the industry's main challenges are managing the availability of skilled people and the increasing tightness of the supply chain. Post Combination we are better placed to manage these challenges. Today Subsea 7 is able to allocate the right resources and expertise to engineer and execute more complex projects on a global basis.

# Financial Review and Statements
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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 27 May 2011, we have audited the accompanying Consolidated Financial Statements of Subsea 7 S.A. (formerly Acergy S.A.), which comprise the Consolidated Balance Sheet as at 31 December 2011, and the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the period from 1 December 2010 to 31 December 2011, 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 issued by the International Accounting Standards Board and as adopted by the European Union, and for such internal control as 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 financial position of Subsea 7 S.A. as of 31 December 2011, and of its financial performance and its cash flows for the period from 1 December 2010 to 31 December 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and 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

15 March 2012

560, rue de Neudorf,
L – 2220 Luxembourg

# Consolidated Income Statement
For the period ended

| (in $ millions, except per share data) | Notes | **2011 31 Dec** | 2010 30 Nov Restated[a] |
|---|---|---|---|
| **Continuing operations:** | | | |
| Revenue | 5 | **5,476.5** | 2,369.0 |
| Operating expenses | | **(4,530.1)** | (1,747.4) |
| **Gross profit** | | **946.4** | 621.6 |
| Administrative expenses | | **(404.0)** | (260.3) |
| Net other operating expense | | **(5.6)** | – |
| Share of net income of associates and joint ventures | 17 | **103.7** | 74.8 |
| **Net operating income from continuing operations** | | **640.5** | 436.1 |
| Finance income | 9 | **20.0** | 9.8 |
| Other gains and losses | 8 | **6.9** | (18.0) |
| Finance costs | 9 | **(40.4)** | (28.7) |
| **Income before taxes** | | **627.0** | 399.2 |
| Taxation | 10 | **(176.3)** | (130.8) |
| **Income from continuing operations** | | **450.7** | 268.4 |
| **Net income from discontinued operations** | 11 | **–** | 44.6 |
| **Net income** | | **450.7** | 313.0 |
| | | | |
| **Net income attributable to:** | | | |
| Equity holders of parent | | **423.7** | 265.4 |
| Non-controlling interests | 27 | **27.0** | 47.6 |
| | | **450.7** | 313.0 |

| Earnings per share | Notes | **$ per share** | $ per share |
|---|---|---|---|
| **Basic:** | | | |
| Continuing operations | | **1.31** | 1.20 |
| Discontinued operations | | **–** | 0.24 |
| | 12 | **1.31** | 1.45 |
| **Diluted:** | | | |
| Continuing operations | | **1.21** | 1.16 |
| Discontinued operations | | **–** | 0.22 |
| | 12 | **1.21** | 1.38 |

The Consolidated Income Statement includes the Group's results for the 13 months ended 31 December 2011. Comparatives are for the 12 months to 30 November 2010.

(a) See Note 3 'Significant accounting policies' for details of restatement.

# Consolidated Statement of Comprehensive Income

For the period ended

| (in $ millions) | Notes | 2011 31 Dec | 2010 30 Nov |
|---|---|---|---|
| **Net income** | | **450.7** | 313.0 |
| Foreign currency translation | | **43.4** | (69.4) |
| Cash flow hedges: | | | |
| Losses on cash flow hedges | 35 | **(0.8)** | (40.8) |
| Transferred to income statement on cash flow hedges | 35 | **(4.2)** | 16.7 |
| Transferred to the initial carrying amount of hedged items on cash flow hedges | 35 | **0.5** | (0.2) |
| Share of other comprehensive income/(loss) of associates and joint ventures | 17 | **1.1** | (5.1) |
| Actuarial losses on defined benefit pension schemes | 38 | **(0.3)** | (7.2) |
| Tax relating to components of other comprehensive income | 10 | **(1.1)** | 5.6 |
| **Other comprehensive income/(expense)** | | **38.6** | (100.4) |
| **Total comprehensive income** | | **489.3** | 212.6 |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of parent | | **462.3** | 167.0 |
| Non-controlling interests | | **27.0** | 45.6 |
| | | **489.3** | 212.6 |

The Consolidated Statement of Comprehensive Income includes the Group's results for the 13 months ended 31 December 2011. Comparatives are for the 12 months to 30 November 2010.

# Consolidated Balance Sheet

| As at (in $ millions) | Notes | 2011 31 Dec | 2010 30 Nov Restated[a] |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 14 | **2,566.6** | – |
| Intangible assets | 15 | **34.9** | 6.1 |
| Property, plant and equipment | 16 | **3,352.2** | 1,278.8 |
| Interest in associates and joint ventures | 17 | **264.1** | 215.1 |
| Advances and receivables | 18 | **65.0** | 62.7 |
| Derivative financial instruments | 35 | **9.5** | 0.7 |
| Retirement benefit assets | 38 | **0.3** | – |
| Deferred tax assets | 10 | **40.9** | 22.8 |
| | | **6,333.5** | 1,586.2 |
| **Current assets** | | | |
| Inventories | 20 | **57.4** | 24.1 |
| Trade and other receivables | 21 | **773.0** | 382.0 |
| Derivative financial instruments | 35 | **10.0** | 12.1 |
| Assets classified as held for sale | 22 | **319.4** | 255.5 |
| Construction contracts – assets | 24 | **515.1** | 112.1 |
| Other accrued income and prepaid expenses | 23 | **383.1** | 130.2 |
| Restricted cash balances | | **52.7** | 3.0 |
| Cash and cash equivalents | | **803.4** | 484.3 |
| | | **2,914.1** | 1,403.3 |
| **Total assets** | | **9,247.6** | 2,989.5 |
| **Equity** | | | |
| Issued share capital | 25 | **703.6** | 389.9 |
| Own shares | 26 | **(278.5)** | (209.2) |
| Paid in surplus | | **4,185.5** | 508.8 |
| Equity reserves | 29 | **278.6** | 110.7 |
| Translation reserves | | **(36.3)** | (80.2) |
| Other reserves | | **(95.6)** | (90.3) |
| Retained earnings | | **1,023.7** | 572.8 |
| **Equity attributable to equity holders of the parent** | | **5,781.0** | 1,202.5 |
| Non-controlling interests | 27 | **51.5** | 56.8 |
| **Total equity** | | **5,832.5** | 1,259.3 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Non-current portion of borrowings | 28 | **880.5** | 435.3 |
| Retirement benefit obligation | 38 | **29.4** | 28.8 |
| Deferred tax liabilities | 10 | **133.3** | 44.1 |
| Provisions | 32 | **22.8** | 12.4 |
| Contingent liability recognised | 33 | **31.3** | – |
| Derivative financial instruments | 35 | **14.9** | 8.7 |
| Other non-current liabilities | 30 | **30.9** | 10.4 |
| | | **1,143.1** | 539.7 |
| **Current liabilities** | | | |
| Trade and other liabilities | 31 | **1,218.9** | 673.3 |
| Derivative financial instruments | 35 | **25.6** | 28.9 |
| Current tax liabilities | | **190.3** | 109.9 |
| Current portion of borrowings | 28 | **12.9** | – |
| Liabilities directly associated with assets classified as held for sale | 22 | **188.4** | 134.5 |
| Provisions | 32 | **41.6** | 26.1 |
| Construction contracts – liabilities | 24 | **383.6** | 198.4 |
| Deferred revenue | 39 | **210.7** | 19.4 |
| | | **2,272.0** | 1,190.5 |
| **Total liabilities** | | **3,415.1** | 1,730.2 |
| **Total equity and liabilities** | | **9,247.6** | 2,989.5 |

(a) See Note 3 'Significant accounting policies' for details of restatement.

# Consolidated Statement of Changes in Equity

For the period

| (in $ millions) | Issued share capital | Own 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 issued | 313.7 | – | 3,637.1 | – | – | – | – | 3,950.8 | – | 3,950.8 |
| Own 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 |
| Tax effects | – | – | 0.8 | – | – | – | – | 0.8 | – | 0.8 |
| 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 acquired | – | (60.0) | – | – | – | – | – | (60.0) | – | (60.0) |
| Shares reissued | – | 66.3 | – | – | – | – | – | 66.3 | – | 66.3 |
| Dividends declared and paid | – | – | – | – | – | – | – | – | (31.4) | (31.4) |
| Vesting of share based payments | – | – | (1.5) | – | – | – | 1.5 | – | – | – |
| Gain on reissuance of own shares | – | – | – | – | – | – | 4.1 | 4.1 | – | 4.1 |
| **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** |
| **Balance at 1 December 2009** | **389.9** | **(222.6)** | **503.9** | **110.7** | **(12.0)** | **(60.1)** | **358.2** | **1,068.0** | **31.2** | **1,099.2** |
| **Comprehensive income** | | | | | | | | | | |
| Net income | – | – | – | – | – | – | 265.4 | 265.4 | 47.6 | 313.0 |
| Exchange differences | – | – | – | – | (67.4) | – | – | (67.4) | (2.0) | (69.4) |
| Cash flow hedges | – | – | – | – | – | (24.3) | – | (24.3) | – | (24.3) |
| Share of other comprehensive loss of associates and joint ventures | – | – | – | – | – | (5.1) | – | (5.1) | – | (5.1) |
| Actuarial losses on defined benefit pension schemes | – | – | – | – | – | (7.2) | – | (7.2) | – | (7.2) |
| Tax relating to components of other comprehensive income | – | – | – | – | (0.8) | 6.4 | – | 5.6 | – | 5.6 |
| **Total comprehensive (loss)/income** | **–** | **–** | **–** | **–** | **(68.2)** | **(30.2)** | **265.4** | **167.0** | **45.6** | **212.6** |
| **Transactions with owners** | | | | | | | | | | |
| Share based compensation | – | – | 4.4 | – | – | – | – | 4.4 | – | 4.4 |
| Tax effects | – | – | 0.5 | – | – | – | – | 0.5 | – | 0.5 |
| Shares reissued | – | 13.4 | – | – | – | – | – | 13.4 | – | 13.4 |
| Dividends declared and paid | – | – | – | – | – | – | (42.2) | (42.2) | (20.0) | (62.2) |
| Loss on reissuance of own shares | – | – | – | – | – | – | (8.6) | (8.6) | – | (8.6) |
| **Total transactions with owners** | **–** | **13.4** | **4.9** | **–** | **–** | **–** | **(50.8)** | **(32.5)** | **(20.0)** | **(52.5)** |
| **Balance at 30 November 2010** | **389.9** | **(209.2)** | **508.8** | **110.7** | **(80.2)** | **(90.3)** | **572.8** | **1,202.5** | **56.8** | **1,259.3** |

The Consolidated Statement of Changes in Equity includes the Group's equity movements for the 13 months ended 31 December 2011. Comparatives are for the 12 months to 30 November 2010.

# Consolidated Statement of Changes in Equity

For the period

## Paid in surplus

This reserve represents the amount exceeding the par value on issuance of shares.  In addition it includes the IFRS 2 charge relating to the Group's equity settled share based payments.

## 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 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 or losses incurred by the Group's defined benefit pension schemes; and
- the Group's share of other comprehensive 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 stated capital, as represented by common shares, 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 outstanding 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

| (in $ millions) | Notes | 2011 31 Dec | 2010 30 Nov Restated[(a)] |
|---|---|---|---|
| **Net cash generated from operating activities** | 40 | **579.4** | 148.3 |
| **Cash flows from investing activities:** | | | |
| Proceeds from sale of property, plant and equipment | | **10.2** | 0.3 |
| Purchases of property, plant and equipment | | **(672.5)** | (503.9) |
| Purchases of intangible assets | 15 | **(4.3)** | (6.2) |
| Cash from acquisition | 13 | **458.9** | – |
| Interest received | 9 | **20.0** | 9.8 |
| Proceeds from sale of assets classified as held for sale | | **0.1** | 2.2 |
| Dividends received from associates and joint ventures | | **63.7** | 28.3 |
| Purchase of non-controlling interest | | **(1.0)** | – |
| Investment in associates and joint ventures | 17 | **–** | (14.0) |
| **Net cash used in investing activities** | | **(124.9)** | (483.5) |
| **Cash flows from financing activities:** | | | |
| Interest paid | | **(45.2)** | (15.8) |
| Proceeds from borrowings | | **189.9** | 6.1 |
| Issuance cost of new borrowings | | **–** | (10.0) |
| Repayments of borrowings | | **(180.7)** | (7.2) |
| Own share buy-backs | | **(60.0)** | – |
| Dividends paid to equity shareholders of the parent | | **–** | (42.2) |
| Loan repayments from joint ventures | | **7.5** | – |
| Proceeds from issuance of ordinary shares | | **8.2** | 4.6 |
| Dividends paid to non-controlling interests | | **(13.7)** | (20.0) |
| **Net cash used in financing activities** | | **(94.0)** | (84.5) |
| Net increase/(decrease) in cash and cash equivalents | | **360.5** | (419.7) |
| Cash and cash equivalents at beginning of period | | **484.3** | 907.6 |
| Effect of foreign exchange rate movements on cash and cash equivalents | | **(3.9)** | (60.1) |
| (Increase)/decrease in restricted cash balances | | **(49.7)** | 16.6 |
| Decrease in cash balances classified as assets held for sale | 22 | **12.2** | 39.9 |
| **Cash and cash equivalents at end of period** | | **803.4** | 484.3 |

The Consolidated Cash Flow Statement includes the Group's cash movements for the 13 months ended 31 December 2011. Comparatives are for the 12 months to 30 November 2010.

(a) See Note 3 'Significant accounting policies' for details of restatement.

# 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. It provides integrated services and plans, designs and delivers complex projects in harsh and challenging environments. The address of the registered office is 412F, route d'Esch, L-2086 Luxembourg. The Group (the Group) consists of Subsea 7 S.A. and its subsidiaries at 31 December 2011.

The nature of the Group's operations and its principal activities are set out in Note 6 'Segment information'.

### Authorisation of Consolidated Financial Statements

Subsea 7 S.A. is a company registered in Luxembourg whose common shares trade on the Oslo Børs and as ADRs over-the-counter in the US. On 7 March 2011 the Company delisted from NASDAQ and on 8 March 2012, the Company applied to voluntarily deregister from the SEC. The Consolidated Financial Statements were authorised for issue by the Board on 15 March 2012.

### 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 period, the Group's accounting reference date was changed to 31 December to align the two legacy companies' accounting references dates and to be consistent with many of the Group's peers. As a result these Consolidated Financial Statements include the Group's results for the 13 months ended 31 December 2011. Comparatives are for the 12 months to 30 November 2010 as previously reported (other than the changes of presentation detailed in Note 3 'Significant accounting policies'), as a result the comparatives are not entirely comparable with the current period. Consolidated Balance Sheet information is presented as at 31 December 2011 with comparatives as at 30 November 2010.

## 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 December 2010:

#### IAS 24 Related Party Transactions (Amendment)

The amendment to IAS 24 clarified the definitions of a related party. The new definitions emphasise a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements, for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

#### Amendments to IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendments clarified the classification of share-based payment transactions in consolidated and separate parent's financial statements. Where a parent entity issues a cash-settled award to employees of its subsidiary, the amendments confirm that this will be treated as a cash-settled share-based payment transaction in the consolidated and separate parent's financial statements and as an equity-settled transaction in the subsidiary's financial statements. This has no impact on the financial position or performance of the Group.

#### Improvements to IFRSs

In May 2010, the International Accounting Standards Board ('IASB') issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations: The measurement options available for non-controlling interest ('NCI') have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation must be measured at either fair value or at the present ownership interest's proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Group, however, adopted these as of 1 January 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of IFRS 3.
- IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 35 'Financial instruments'.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income may be presented either in the Consolidated Statement of Changes in Equity or in the notes to the Consolidated Financial Statements. The Group provides this analysis in the Consolidated Statement of Changes in Equity.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combinations prior to adoption of IFRS 3)
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements
- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IAS 32 'Financial Instruments: Presentation' – classification of rights issues
- Amendment to IFRIC 14 – 'Prepayments of a Minimum Funding Requirement'

### (ii) Accounting Standards 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 (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 2013 | 1 January 2013 |
| IFRS 11 Joint Arrangements (Issued 12 May 2011)* | 1 January 2013 | 1 January 2013 |
| IFRS 12 Disclosures of Interests in Other Entities (Issued 12 May 2011)* | 1 January 2013 | 1 January 2013 |
| 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 2013 | 1 January 2013 |
| IAS 28 Investments in Associates and Joint Ventures (Issued 12 May 2011)* | 1 January 2013 | 1 January 2013 |
| Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)* | 1 July 2012 | 1 January 2013 |
| Amendments to IAS 19 Employee Benefits (issued 16 June 2011)* | 1 January 2013 | 1 January 2013 |
| Disclosures – Disclosures on transfers of financial assets (Amendments to IFRS 7) | 1 July 2011 | 1 January 2012 |
| Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* | 1 January 2013 | 1 January 2013 |
| Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)* | 1 January 2014 | 1 January 2014 |

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

#### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected to be over the course of 2012. 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 potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### 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. The full impact of the standard is not currently quantified.

#### IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The full impact of the standard is not currently quantified.

#### 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 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.

#### 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.

#### IAS 27 (as revised in 2011)

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 (as revised in 2011)

As a consequence of the new 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.

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

The amendment requires additional disclosures about 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 about 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 amendment affects disclosure only and has therefore no impact on the Group's financial position or performance.

#### IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

## 2. Adoption of new accounting standards *continued*

### Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 and IFRS 7)

In December 2011, the IASB clarified its requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation.

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 about 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 help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.

## 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 International Accounting Standards Board ('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. The principal accounting policies adopted are consistent with the annual Consolidated Financial Statements for the year ended 30 November 2010, except where noted in Note 2 'Adoption of new accounting standards'.

### Change of presentation

From 1 December 2010 the Group has presented administrative expenses net of costs recharged to projects. Previously, administrative costs were presented prior to this recharge. This presentational change reflects more accurately how management reviews projects on an ongoing basis. As a result, the comparative Consolidated Income Statement has been restated with an increase to operating expenses of $46.4 million and a corresponding reduction in gross profit and administrative expenses.

From 1 December 2010 the Group has presented interest received as a cash flow from investing activities (previously presented as cash generated from operating activities) and foreign exchange movements on cash balances within the line 'Effects of exchange rates on cash and cash equivalents' (previously included within 'Cash generated from operating activities'). In addition movements in restricted cash have been presented separately, rather than being included in 'Cash generated from operating activities' As a result cash generated in operating activities has increased by $41.5 million, cash flows from investing activities increased by $9.8 million and effects of exchange rates on cash and cash equivalents has reduced by $34.7 million for the period and a movement in restricted cash of $16.6 million was presented on the face of the Cash Flow Statement. This reclassification reflects more accurately the use of cash by the Group.

Neither of these changes in presentation has an impact on net operating income, net income, earnings per share or the Consolidated Balance Sheet in the current or prior period and consequently no third Consolidated Balance Sheet has been presented.

From 1 December 2010 the Group has presented 'Construction contracts – assets' and 'Construction contracts – liabilities' on the face of the Consolidated Balance Sheet rather than within 'Other accrued income and prepaid expenses' and 'Deferred revenue' respectively. Given the relative size of these balances and their different characteristics to the more general 'accrued income' and 'deferred revenue' descriptions this change is considered a more appropriate presentation. This change in presentation impacts the debt service and debt volume ratios in Note 35 'Financial instruments' and therefore the ratios as at 30 November 2010 have been restated accordingly.

A third Consolidated Balance Sheet has not been presented for this change as the construction contracts balances have not been changed, only given more prominence. The construction contracts balances as at 30 November 2009 are separately identified in Note 22 'Other accrued income and prepaid expenses', Note 23 'Construction Contracts' and Note 41 'Deferred revenue' to the Consolidated Financial Statements of Acergy S.A. as at 30 November 2009.

### 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 on a systematic basis, 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 dry-docking is scheduled for the asset (usually 2½ to 5 years). 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.

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. When the provision is recognised the increase in the provision due to the passage of time is recognised as a finance cost.

## 3. Significant accounting policies *continued*

### 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 leases are capitalised at the inception of the lease at the fair value of the leased property 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 unless another systematic basis is more representative of the time pattern of the user's benefit. 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.

Refurbishment expenditure and improvements to leased assets are expensed in the Consolidated Income Statement unless they significantly increase the value of a 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 rate of exchange ruling at the balance sheet date. All differences are taken to net income or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items 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.

The assets and liabilities of foreign operations are translated into US Dollars at the rate of exchange ruling at the balance sheet date and their income and expenditure items are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in 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: 0.63794

EUR: 0.76625

NOK: 5.94742

BRL: 1.85618

### Borrowing costs
Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs plus accrued interest less any repayments, and subsequently stated at amortised cost.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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 schemes are charged to the 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 are already vested, or amortised on a straight-line basis over the average period until the benefits become vested.

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 scheme 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 scheme.

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 Financial Statements at their actuarial valuation.

## Taxation

### Income tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable 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 by 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 substantially 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 profit or loss 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 (see below). 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 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. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about 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 about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

## 3. Significant accounting policies *continued*

### 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 profit or loss as a bargain purchase gain.

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. Except for capitalised development costs, internally generated intangible assets are not capitalised. Development expenditure which does not meet the criteria for capitalisation is reflected in the Consolidated Income Statement in the year in which the expenditure is incurred.

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.

#### 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. During the period of development, 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) was recorded as part of the acquisition of Subsea 7 Inc. Customer contracts (Backlog) is amortised based on the term of the projects in backlog at acquisition.

Developed Technology was recorded as part of the acquisition of Subsea 7 Inc. Developed Technology is amortised on a straight-line basis of five years.

#### Other

Other intangible assets are recognised at cost and have an indefinite useful life. The asset is tested annually for impairment or when there are indicators of impairment and carried at cost less any such charges.

### Property, plant and equipment

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

Assets under construction are carried at cost, less any recognised impairment loss. Cost includes external professional fees and borrowing costs 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:

| | |
|---|---|
| • Construction support 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.

Construction support 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 year 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.

### Discontinued operations

The Group classifies an asset or disposal group as a discontinued operation when:

- it has been either disposed of or classified as held for sale; or
- it represents a single major line of business or geographical area of operation or is part of a coordinated plan for disposal.

In the period an asset or disposal group has been disposed of, or is classified as held for sale, the results of the operation are reported as discontinued operations in the current and prior periods.

### Tendering and bid costs

Costs incurred in the tendering process are expensed as incurred, except those costs which are incurred once the Group has achieved 'preferred bidder' status, when the project is considered highly probable of proceeding and a future benefit likely to occur. Subsequent costs are accumulated until the project is awarded, at which point they are included in project costs for net income recognition purposes.

### Impairment of non-financial assets

At each balance sheet date the Group assesses whether there is an indication that an asset 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 belongs.

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 and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations 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 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.

## 3. Significant accounting policies *continued*

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 synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. 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 executive management. The discount rate applied to the cash flow projections is the Group's cost of capital at the impairment test date, adjusted for an appropriate margin and risk factors. 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.

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:

- financial assets at 'fair value through the profit or loss' (FVTPL);
- 'held to maturity' investments;
- 'available for sale' (AFS) financial assets;
- '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.

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

Financial liabilities and equity instruments are classified as either FVTPL, '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 assets 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 assets classified at FVTPL which are measured at fair value. Changes in the fair value of investments classified at FVTPL are included in the Consolidated Income Statement. Changes in the fair value of investments classified as AFS are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are included in the Consolidated Income Statement for the period. Investment income on investments classified at FVTPL and AFS is recognised in the Consolidated Income Statement as it accrues.

### Subsequent measurement – fair values
After initial recognition, the fair values of financial instruments 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. Reversal of impairment of a debt instrument classified as available for sale is recognised in net income or loss while a reversal related to an equity instrument classified as available for sale is recognised in equity.

### Derivatives
The Group enters into both derivative financial instruments (derivatives) 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 interest and foreign currency 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 in the Consolidated Balance Sheet with the host contract. 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 forecasted 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 forecasted hedged transaction is no longer expected to occur, the net cumulative gains or losses recognised in equity are transferred to the Consolidated Income Statement immediately.

## 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 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. Bank overdrafts 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 will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced with the loss recognised in other operating income. Impaired debts 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.

# Notes to the Consolidated Financial Statements

## 3. Significant accounting policies *continued*

### Convertible loan notes
The component of the convertible loan notes issued by the Group that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of the convertible loan notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible loan note; and 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.

### Financial guarantee liabilities
Financial guarantee liabilities issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor (generally an associate or joint venture of the Group) fails to fulfil a commitment in accordance with the terms of a debt instrument.

Initially a financial guarantee contract is recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and the amount initially recognised.

### Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past 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 they can be reliably measured and there is a legal or constructive obligation. 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, suits and complaints. In consultation with internal and external advisors, management will provide for a loss in the Consolidated Financial Statements if it is probable that a liability has been incurred at the date of the Consolidated Financial Statements 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.

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

### Share based payments
Certain employees of the Group receive part of their remuneration in the form of share options, shares and cash bonuses based on 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 employer entity 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 scheme has been 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. The dilutive effect of outstanding options and performance 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 about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that 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.

#### Purchase price allocation

On Combination with the Subsea 7 Inc. group, the acquired assets and assumed liabilities had to be fair valued. This process resulted in valuation adjustments being made for property, plant and equipment, intangible assets, accrued revenue, provisions for contract losses, contingent liabilities, convertible loan notes, acquired treasury shares, replaced share based payments and taxation balances. These fair valuations involved third party valuations in some cases, and significant management assumptions in others. Where possible and practical the Group took expert valuation advice from third parties, however, some items of property, plant and equipment were valued by management as a market price was not available for these assets. Results during the period allowed management to determine whether any adjustments to the fair value of any acquired assets and liabilities were required, particularly in relation to accrued revenue and contract loss provisions. Valuation of assumed contingent liabilities, which required recognition under IFRS 3 'Business Combinations', were subject to significant management judgement, based on previous experience of the claims, and legal advice.

#### Allocation of goodwill to CGUs

Goodwill arising on the Combination had to be allocated to cash-generating units ('CGUs'). There is no prescribed method for allocating goodwill and as a result management had to use their judgement in choosing a method to allocate goodwill to CGUs. The level at which the Board of Directors and management review goodwill is at the Territory level, however, the goodwill associated with the acquired i-Tech and VERIPOS divisions was assessed separately. Goodwill was allocated based on the notional headroom of each CGU's forecast value-in-use over its net assets. The estimates used in calculating the value-in-use for each CGU are described in Note 14 'Goodwill'. Management also assessed the appropriateness of this allocation based on expected synergies of the Combination.

Furthermore, the Group was required to record Goodwill in the appropriate underlying currencies.

#### 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 for the Group's industry. Contract revenues and total cost estimates are reviewed and revised periodically as work progresses. Adjustments based on the percentage-of-completion method are reflected in contract revenues in the reporting period. 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 against current earnings; amounts in prior periods are not restated. Such a charge or credit may be significant depending on the size of the project or 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 progress toward completion of contracts and contract revenues and contract costs. The Group believes it assesses its business risks in a manner that allows it to evaluate the outcome of projects for purposes of making reliable estimates. Often the outcome of a project is more favourable than originally expected, due to increases in scope or efficiencies achieved during execution. The Group's business risks have involved, and will continue to involve, unforeseen difficulties including weather, economic instability, labour strikes, localised civil unrest, and engineering and logistical changes, particularly in major projects. The Group does not believe its business is subject to the types of inherent hazards, conditions or external factors that raise questions about contract estimates and about the ability of either the contractor or client to perform its obligations that would indicate that the use of the percentage-of-completion method is not preferable.

#### 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.

## 4. Critical accounting judgements and key sources of estimation uncertainty *continued*

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 can be dependent on the outcome of negotiations. Therefore, claims are 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 the amount can be measured reliably.

### 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 use their experience to estimate the remaining useful life and residual value of an asset, particularly when it has been upgraded.

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 use their judgement in determining asset utilisation, profitability, remaining life, and the discount rate when performing the calculation.

### Impairment of investments in and advances to associates and joint ventures

Investments in associates and joint ventures are reviewed periodically to assess whether there is objective evidence that the carrying value of the investment is impaired. In making this assessment, the Group considers whether or not they are able to recover the carrying value of the investment.

A provision is made against non-collectability of loans and advances made to associates and joint ventures when there is objective evidence that the Group will be unable to collect all amounts due according to the contractual terms of the agreement.

### Goodwill carrying value

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

### Recognition of provisions and disclosure of contingent liabilities

The Group is subject to various claims, lawsuits and complaints involving, clients, subcontractors, employees, tax authorities and others in the ordinary course of business. In consultation with internal and external advisors, management will recognise a provision if information available prior to issuance of the Consolidated Financial Statements indicates that it is probable that a liability had been incurred at the balance sheet date, and the amount of the loss can be reasonably estimated. Contingent liabilities for which a possible obligation exists are disclosed but not recognised.

Where the provision relates to a large population of items, the use of an 'expected value' is appropriate to arrive at a best estimate of the obligation. The expected value takes account of all possible outcomes, using probabilities to weight the outcomes. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

### 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 use their 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 use their judgement in selecting an appropriate valuation technique and assumptions regarding, amongst others, future share price volatility, risk of forfeiture 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 scheme valuations

Management utilises the services of various qualified actuaries to calculate an estimate of the defined benefit pension liability for the funded and unfunded schemes. Details of the financial and actuarial assumptions used by the qualified actuaries in determining the pension liability are provided in Note 38 'Retirement benefit obligations'.

## 5. Revenue

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

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Continuing operations: | | |
| SURF | **3,315.2** | 1,238.6 |
| Conventional | **1,244.1** | 887.8 |
| Life-of-Field | **698.9** | 242.6 |
| i-Tech/VERIPOS | **218.3** | – |
| Continuing operations revenue | **5,476.5** | 2,369.0 |
| | | |
| **Discontinued operations:** | | |
| Trunklines (Note 11) | **–** | 83.4 |
| Discontinued operations revenue | **–** | 83.4 |
| | | |
| **Total revenue** | **5,476.5** | 2,452.4 |

A portion of the Group's revenue is denominated in foreign currencies and is cash flow hedged. The amounts disclosed above for revenue include the recycling of the effective amount of the foreign currency derivatives that are used to hedge foreign currency revenue (refer to Note 35 'Financial instruments').

## 6. Segment information

From 1 December 2010, the Group has changed its reporting segments. For management and reporting purposes, the Group is organised into four Territories, which are representative of its principal activities. In addition, the Corporate segment includes all activities that serve more than one Territory. These include the activities of the SHL and NKT Flexibles joint ventures. All assets are allocated to a specific Territory; including vessels which have global mobility which were previously attributed to the 'Acergy Corporate' segment.

Below is a summary of the reporting segments for the period:

- Africa & Gulf of Mexico (AFGoM) formerly Acergy AFMED and Acergy NAMEX
- Asia Pacific & Middle East (APME) including SapuraAcergy formerly Acergy AME including SapuraAcergy
- Brazil (BRAZIL) formerly Acergy SAM
- North Sea, Mediterranean & Canada (NSMC) formerly Acergy NEC
- Corporate (CORP) including NKT Flexibles and SHL formerly Acergy Corporate including NKT Flexibles and SHL

The previous regions of 'Acergy AFMED' and 'Acergy NAMEX' have been combined to show an appropriate comparative to the new reporting segment 'AFGoM'.

The chief operating decision maker was the Chief Executive Officer of the Group. He was assisted by the other members of the Executive Management Team. Where projects were serviced by more than one segment, the costs and associated revenues were allocated to segments on the basis of the work actually performed by each segment.

The accounting policies of the reportable segments were the same as the Group's accounting policies described in Note 3 'Significant accounting policies'. Segment profit represents net operating income/(loss) earned by each segment and included the Group's share of net income of associates and joint ventures and central administration costs, including Directors' salaries.

Total assets by segment are not regularly provided to the chief operating decision maker and consequently no such disclosure is included.

Reporting segments are defined below:

### Asia Pacific & Middle East (APME)

This segment includes activities in Asia Pacific, India, and the Middle East and has offices in Singapore, Kuala Lumpur, Malaysia, Beijing, China and Perth, Australia. It also includes the joint ventures SapuraAcergy and Technip Subsea 7.

### Africa & Gulf of Mexico (AFGoM)

This segment includes activities in Africa, the US, Mexico, and Central America and has offices in London, England; Suresnes, France; Lagos, Nigeria; Luanda, Angola; and Houston, US. It also operates fabrication yards in Nigeria, Angola, Gabon and US. It also includes the associates Dalia and Oceon.

### Brazil (BRAZIL)

This segment includes activities in Brazil and has its offices and logistic bases in Rio de Janeiro and a pipeline fabrication spoolbase at Ubu, Brazil.

### North Sea, Mediterranean & Canada (NSMC)

This segment includes activities in Northern Europe and Eastern Canada, and has offices in Aberdeen, Scotland; Stavanger, Norway; St Johns, Canada; and Moscow, Russia. It also includes a pipeline fabrication spoolbase in Vigra, Norway and a pipeline bundle fabrication yard at Wick, Scotland.

### Corporate (CORP)

This segment includes activities that serve more than one segment. These include: management of offshore personnel; captive insurance activities; management and corporate services provided for the benefit of all of the Group's businesses. It also includes the joint ventures NKT Flexibles and SHL.

The Group's discontinued operations have been shown separately from the reportable geographical business segments. Additional information is shown in Note 11 'Discontinued operations'.

# Notes to the Consolidated Financial Statements

## 6. Segment information *continued*

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

### For the period ended 31 December 2011

| (in $ millions) | **AFGoM** | **APME** | **BRAZIL** | **NSMC** | **CORP** | **Total continuing operations** | **Discontinued operations** |
|---|---|---|---|---|---|---|---|
| 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 regularly provided to the Chief Operating Decision Maker.

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

### For the year ended 30 November 2010

| (in $ millions) | AFGoM Restated | APME | BRAZIL | NSMC | CORP | Total continuing operations | Discontinued operations[d] |
|---|---|---|---|---|---|---|---|
| Revenue[a,b] | 1,396.0 | 179.8 | 214.3 | 568.1 | 10.8 | 2,369.0 | 83.4 |
| Operating (expenses)/income (restated)[c,e] | (1,034.4) | (103.7) | (184.9) | (456.3) | 31.9 | (1,747.4) | (23.7) |
| Share of net income of associates and joint ventures | 1.8 | 28.5 | – | – | 44.5 | 74.8 | – |
| Depreciation, mobilisation and amortisation expenses | (34.0) | (1.3) | (33.5) | (15.5) | (35.1) | (119.4) | – |
| Impairment of property, plant and equipment | 1.9 | – | – | – | (7.0) | (5.1) | – |
| Impairment of intangible assets | 1.3 | – | – | – | – | 1.3 | – |
| Net operating income from operations | 307.3 | 83.5 | 8.4 | 83.6 | (46.7) | 436.1 | 59.7 |
| Investment income from bank deposits | | | | | | 9.8 | – |
| Other gains and losses | | | | | | (18.0) | (0.2) |
| Finance costs | | | | | | (28.7) | – |
| Income before taxes | | | | | | 399.2 | 59.5 |

(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 regularly provided to the Chief Operating Decision Maker.

(b) Two clients in the year ended 30 November 2010 accounted for more than 10% of the Group's revenue from continuing operations. The revenue from these clients was $428.1 million and $409.6 million and was attributable to AFGoM, NSMC and APME.

(c) The amount for AFGoM includes inter-regional expenditure sharing arrangements.

(d) Note 11 'Discontinued operations' for further information.

(e) Note 3 'Significant accounting policies' for further information on the restatement.

### 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 done. Based on the country of registered office of the Group subsidiary/branch, revenues from continuing operations are split as follows:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Luxembourg | **15.4** | – |
| United Kingdom | **1,811.3** | 330.1 |
| Norway | **781.2** | 319.7 |
| Nigeria | **776.6** | 316.3 |
| Angola | **622.2** | 559.8 |
| France | **464.3** | 397.6 |
| Brazil | **382.2** | 90.2 |
| Other countries | **623.3** | 355.3 |
| | **5,476.5** | 2,369.0 |

### 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) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| Luxembourg | **522.9** | – |
| United Kingdom | **1,087.4** | 176.8 |
| Bermuda | **706.3** | 553.5 |
| Isle of Man | **549.6** | 492.9 |
| Norway | **278.8** | 123.6 |
| Gibraltar | **197.1** | 82.7 |
| Other countries | **374.1** | 133.2 |
| | **3,716.2** | 1,562.7 |

## 7. Net operating income

Net operating income from continuing operations includes:

| For the period (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| Research and development costs recognised as an expense | **13.4** | 5.2 |
| Employee benefits | **1,742.9** | 664.6 |
| Auditors' remuneration | **3.2** | 6.3 |

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

| For the period (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| Audit fees | **1.4** | 3.4 |
| Audit-related fees | **0.4** | 0.4 |
| Tax fees | **1.4** | 2.1 |
| Other fees | **–** | 0.4 |
| | **3.2** | 6.3 |

## 8. Other gains and losses

| For the period (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| (Losses)/gains on disposal of property, plant and equipment | **(2.9)** | 0.2 |
| Losses on derivative financial instruments (classified as at fair value through profit or loss) | **(2.0)** | – |
| Net foreign currency exchange gains/(losses) | **11.8** | (18.2) |
| **Total** | **6.9** | (18.0) |

## 9. Finance income and costs

| For the period (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| **Finance income:** | | |
| Investment income from bank deposits | **20.0** | 9.8 |
| **Total finance income** | **20.0** | 9.8 |
| | | |
| **Finance costs:** | | |
| Interest and fees on borrowings | **21.4** | 11.0 |
| Interest on convertible loan notes (Note 29) | **45.3** | 31.0 |
| Unwinding of discount on provisions (Note 32) | **–** | (0.3) |
| **Total borrowing costs** | **66.7** | 41.7 |
| Less: amounts included in the cost of qualifying assets | **(25.3)** | (13.7) |
| | **41.4** | 28.0 |
| Interest on tax liabilities | **(1.0)** | 0.7 |
| **Total finance costs** | **40.4** | 28.7 |

Borrowing costs included in the cost of qualifying assets during the year is calculated by applying a capitalisation rate of 7.35% (2010: 7.35%) to expenditure on such assets.

## Notes to the Consolidated Financial Statements

### 10. Taxation

#### Tax recognised in the Consolidated Income Statement

| For the period (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| **Tax charged in the Income Statement:** | | |
| Current tax: | | |
| Corporation tax on profits for the year | **254.3** | 157.6 |
| Adjustments in respect of prior years | **(14.1)** | (1.4) |
| **Total current tax** | **240.2** | 156.2 |
| Deferred tax | **(63.9)** | (10.5) |
| **Total** | **176.3** | 145.7 |
| | | |
| Attributable to: | | |
| Continuing operations | **176.3** | 130.8 |
| Discontinued operations | **–** | 14.9 |
| **Total** | **176.3** | 145.7 |

#### Tax recognised in the Consolidated Statement of Comprehensive Income

| For the period (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| **Tax relating to items charged/(credited) to comprehensive income:** | | |
| Current tax: | | |
| Exchange differences | **(0.5)** | 0.8 |
| Income tax recognised directly in comprehensive income | **(0.5)** | 0.8 |
| Deferred tax: | | |
| Net loss/(gain) on revaluation of cash flow hedges | **2.3** | (6.2) |
| Actuarial losses on defined benefit pension schemes | **(0.7)** | (0.2) |
| **Deferred tax recognised directly in comprehensive income** | **1.6** | (6.4) |
| **Total** | **1.1** | (5.6) |

#### Tax recognised in the Consolidated Statement of Changes in Equity

| For the period (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| Deferred tax: | | |
| Share based payments | **(0.8)** | (0.5) |
| **Total** | **(0.8)** | (0.5) |

#### Reconciliation of the total tax charge

As at 1 December 2010, Subsea 7 S.A. ('the Company') was a 1929 Luxembourg Holding Company. Luxembourg tax law provided for a special tax regime for 1929 Holding Companies and consequently the Company was subject to de minimis tax in Luxembourg. On 1 January 2011, the 1929 regime ceased to apply and the Company became a normally taxed Luxembourg company. Income taxes have been provided based on the tax laws and rates in the countries where business operations have been established and earn 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, taking account of permanent differences between book and tax net incomes.

The Group's tax charge has been reconciled to a tax rate for the period of 28% (2010: 28%), being the expected blended statutory rate taking into consideration the jurisdictions in which the Group operates.

| For the period (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| **Income before taxes on continuing operations** | **627.0** | 399.2 |
| Tax at the blended statutory tax rate of 28% (2010: 28%) | **175.6** | 111.8 |
| Effects of: | | |
| Benefit of Tonnage tax regime | **(13.6)** | (7.0) |
| Different tax rates of subsidiaries operating in other jurisdictions (tax rate differences) | **33.6** | 13.6 |
| Adjustments related to prior years | **(25.1)** | (1.4) |
| Movement in non-provided deferred tax | **(12.0)** | 1.5 |
| Net incomes not subject to tax | **0.1** | (0.3) |
| Tax effect of share of net income of associates and joint ventures | **(17.5)** | (6.7) |
| Withholding taxes | **29.8** | 19.2 |
| Changes in tax rates | **(3.8)** | (0.4) |
| Other permanent differences | **9.2** | 0.5 |
| **Tax charge in the Consolidated Income Statement** | **176.3** | 130.8 |

## Deferred tax

Analysis of the movements in net deferred tax balance during the period:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| At period beginning | **(21.3)** | (30.6) |
| Recognised on business combination | **(130.6)** | – |
| Credited/(charged) to: | | |
| – Consolidated Income Statement | **63.9** | 10.5 |
| – Consolidated Statement of Comprehensive Income | **(1.6)** | 6.4 |
| – Consolidated Statement of Changes in Equity | **0.8** | 0.5 |
| Transfer to current tax | **–** | (8.6) |
| Exchange differences | **(3.6)** | 0.5 |
| **At period end** | **(92.4)** | (21.3) |

On acquisition, the Subsea 7 S.A. Group recognised a net $130.6m deferred tax liability on intangible and tangible assets and other temporary differences.

Deferred tax assets and liabilities in respect of continuing operations, before offset of balances within countries, are as follows:

### As at 31 December 2011

| (in $ millions) | **Deferred tax asset** | **Deferred tax liability** | **Net recognised deferred tax asset/(liability)** | **Amount credited/ (charged) in 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** |

### As at 30 November 2010

| (in $ millions) | Deferred tax asset | Deferred tax liability | Net recognised deferred tax asset/(liability) | Amount credited/ (charged) in Consolidated Income Statement |
|---|---|---|---|---|
| Property, plant and equipment | 2.3 | (15.9) | (13.6) | (7.1) |
| Accrued expenses | 27.6 | (28.7) | (1.1) | 20.7 |
| Share based payments | 4.6 | – | 4.6 | 1.8 |
| Convertible loan notes | – | (17.7) | (17.7) | – |
| Tax losses | 6.5 | – | 6.5 | (4.9) |
| Total | 41.0 | (62.3) | (21.3) | 10.5 |

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

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Deferred tax assets | **40.9** | 22.8 |
| Deferred tax liabilities | **(133.3)** | (44.1) |
| **Total** | **(92.4)** | (21.3) |

At the balance sheet date, the Group has tax losses of $222.7 million (2010: $128.4 million) available for offset against future taxable profits. A deferred tax asset has been recognised in respect of $131.3 million (2010: $23.2 million) of such losses. No deferred tax asset has been recognised in respect of the remaining $91.4 million (2010: $105.2 million) as it is not considered probable that there will be future profits available. In addition the Group has unrecognised deferred tax assets of approximately $27.6 million (2010: $46.8 million) in respect of other temporary differences.

## Tonnage tax regime

The tax charge reflects a net benefit in the period of $13.6 million (2010: $7.0 million) as a result of being taxable under the current UK and Norwegian Tonnage tax regime, as compared to the tax that would be payable had an election to join the Tonnage tax regime not been made.

## 10. Taxation *continued*

### 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:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Within five years | **4.7** | 2.5 |
| 5 to 10 years | **10.6** | – |
| 11 to 15 years | **0.9** | – |
| 16 to 20 years | **85.6** | 54.6 |
| Without time limit | **120.9** | 71.3 |
| **Total** | **222.7** | 128.4 |

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

### Tax contingencies and provisions

Operations are carried out in several countries, through subsidiaries and branches of subsidiaries, and are subject to the jurisdiction of a significant number of taxing authorities. Furthermore, the offshore mobile nature of the Group's operations means that the Group routinely has to deal with complex transfer pricing, permanent establishment and other similar international tax issues as well as competing tax systems where tax treaties may not exist.

In the ordinary course of events operations will be subject to audit, enquiry and possible re-assessment by different tax authorities. Management provides taxes for the amounts that it considers probable of being payable as a result of these audits and for which a reasonable estimate may be made. Management also separately considers whether taxes payable in relation to filings not yet subject to audit may be higher than the amounts stated in the filed tax return, and makes additional provisions for probable risks if appropriate. As forecasting the ultimate outcome includes some uncertainty, the risk exists that adjustments will be recognised to the Group's tax provisions in later years as and when these and other matters are finalised with the appropriate tax authorities.

In 2011, operations in various countries were subject to enquiries, audits and disputes, including, but not limited to, those in Angola, Australia, Brazil, Canada, Equatorial Guinea, France, Gabon, Indonesia, Nigeria, the UK, 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.

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 taxing authorities often leads to uncertainty on tax positions.

As a result of the above, in the period, the Group recorded a net tax charge decrease of $10.2 million (2010: increase of $6.4 million) in respect of ongoing tax audits and in respect of the Group's review of its uncertain tax positions. The decrease (2010: increase) arises from both adjustments that the Group has agreed with the relevant tax authorities and re-estimates that it has made.

Whilst the Group has made the incremental provisions noted in the preceding paragraph, reflecting its view of the most likely outcomes, 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. Discontinued operations

On 27 November 2008, the Group entered into an agreement with Saipem (Portugal) Comercio Maritimo S.U. Lda to dispose of *Acergy Piper*, a semi-submersible pipelay barge, for $78.0 million. The disposal was driven by a desire to continue to focus the Group on its core operations. The disposal was completed on 9 January 2009.

*Acergy Piper* was the Group's sole operating unit in the Trunklines market which involved the offshore market installation of large-diameter pipelines used to carry oil and gas over large distances. The disposal of the barge therefore represents the Group's discontinuance of this operation.

In 2010, the Group continued to generate revenues through the Trunklines operation due to additional related work on the Mexilhao Project that did not require *Acergy Piper*. This project was complete as at 30 November 2010.

The results of the discontinued operations, which have been included in the Consolidated Income Statement, were as follows:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Revenue (Note 5) | **–** | 83.4 |
| Expenses[(a)] | **–** | (23.9) |
| Income before tax | **–** | 59.5 |
| Taxation charge on discontinued operations (Note 10) | **–** | (14.9) |
| **Net income from discontinued operations** | **–** | 44.6 |

(a) Includes operating expenses, administrative expenses, finance costs and other gains and losses.

The 2010 discontinued operations impacted the Consolidated Income Statement of the Brazil segment, and net income relates wholly to equity holders of the parent.

Discontinued operations generated $Nil (2010: $23.2 million) of the Group's net operating cash flows, and generated $Nil (2010: $0.1 million) in respect of investing activities.

## 12. Earnings per share

### Basic earnings per share

Basic earnings per share amounts are calculated by dividing the net income attributable to equity holders of the parent for continuing and discontinued operations by the weighted average number of common shares in issue during the period, excluding ordinary shares purchased by the Group, and held as treasury shares (Note 26 'Own shares') as follows:

| For the period | **2011 31 Dec $ per share** | 2010 30 Nov $ per share |
|---|---|---|
| **Basic earnings per share:** | | |
| From continuing operations | **1.31** | 1.20 |
| From discontinued operations | **–** | 0.24 |
| **Total basic earnings per share** | **1.31** | 1.45 |

The earnings and weighted average number of common shares used in the calculation of basic earnings per share are as follows:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Net income for the year from continuing operations | **423.7** | 220.8 |
| Net income from discontinued operations (Note 11) | **–** | 44.6 |
| **Net income attributable to equity holders of the parent** | **423.7** | 265.4 |

| | **2011 31 Dec Number of shares** | 2010 30 Nov Number of shares |
|---|---|---|
| **Weighted average number of common shares for the purpose of basic earnings per share** | **323,783,380** | 183,500,710 |

### Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible loan notes and share options. The convertible loan notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done 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.

| For the period | **2011 31 Dec $ per share** | 2010 30 Nov $ per share |
|---|---|---|
| **Diluted earnings per share:** | | |
| From continuing operations | **1.21** | 1.16 |
| From discontinued operations | **–** | 0.22 |
| **Total diluted earnings per share** | **1.21** | 1.38 |

The earnings and weighted average number of common shares used in the calculation of diluted earnings per share are as follows:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Net income for the year from continuing operations | **423.7** | 220.8 |
| Interest on convertible loan notes less amounts capitalised to qualifying assets | **20.5** | 19.0 |
| Net income for the year from discontinued operations (Note 11) | **–** | 44.6 |
| **Earnings used in the calculation of diluted earnings per share** | **444.2** | 284.4 |

| | **2011 31 Dec Number of shares** | 2010 30 Nov Number of shares |
|---|---|---|
| Weighted average number of common shares used in the calculation of basic earnings per share | **323,783,380** | 183,500,710 |
| Convertible loan notes | **40,750,146** | 22,184,506 |
| Share options | **1,775,974** | 1,020,820 |
| **Weighted average number of common shares used in the calculation of diluted earnings per share** | **366,309,500** | 206,706,036 |

In the period 2,220,677 shares relating to restricted share and share option plans (2010: 1,552,625) 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.

## 13. Business combination

The acquisition by Subsea 7 S.A. of Subsea 7 Inc. was completed on 7 January 2011 after closing of the 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 the Oslo Børs on the date of combination, 7 January 2011, resulting in an aggregate market value of shares issued of $3.95 billion.

The Combination created a seabed-to-surface engineering, construction and services group with (at the date of acquisition):

- A market value of $9 billion and a global organisation of 12,000 people
- The capability and resources to address the worldwide growth in size and complexity of subsea projects
- Enhanced local presence in all major offshore oil and gas regions
- A combined backlog in excess of $6 billion giving a complementary mix by contract type and geographical region
- Complementary businesses able to deliver a step-change in service for clients
- Expected annual synergies of at least $100 million from 2013
- Improved ability to attract and retain the best talent from within and outside our industry.

The fair value of the identifiable assets and liabilities of Subsea 7 Inc. as at the date of acquisition were:

| (In $ millions) | Fair value recognised on acquisition |
|---|---|
| **Assets** | |
| Intangible assets | 50.8 |
| Property, plant and equipment | 1,790.4 |
| Other current assets | 614.0 |
| Cash and cash equivalents | 458.9 |
| Inventory | 35.2 |
| Deferred tax assets | 10.2 |
| Tax receivables | 4.0 |
| Interests in associates and joint ventures | 7.7 |
| Derivative financial instruments | 1.3 |
| | 2,972.5 |
| **Liabilities** | |
| Convertible notes – liability component | (509.6) |
| Other current liabilities | (645.6) |
| Deferred tax liabilities | (140.8) |
| Current tax liabilities | (69.5) |
| Contingent liabilities | (35.7) |
| Provisions | (16.5) |
| Derivative financial instruments | (2.4) |
| | (1,420.1) |
| Total identifiable net assets at fair value | 1,552.4 |
| Goodwill arising on acquisition (Note 14) | 2,538.5 |
| | 4,090.9 |
| **Consideration is comprised of:** | |
| Shares issued at market value | 3,950.8 |
| Add: pre-Combination portion of the fair value of share based payments replaced by Subsea 7 S.A. on Combination | 26.2 |
| Add: convertible loan notes – equity component (Note 29) | 189.5 |
| Less: market value of treasury shares acquired | (75.6) |
| | 4,090.9 |

The fair value of the trade receivables acquired amounted to $212.2 million. The gross amount of trade receivables was $213.3 million. The difference related to amounts which the Subsea 7 Inc. group had already provided for at the date of acquisition. No other trade receivables have been impaired.

The goodwill recognised above is attributed to the expected operating costs, vessel fleet and capital expenditure synergies and other benefits from combining the assets and activities of Subsea 7 Inc. with those of the Group and intangible assets of Subsea 7 Inc. which do not meet the separate recognition criteria. These other benefits, which cannot be separately recognised, include, for example, the assembled workforce, the diversification of the fleet and the complementary service capabilities. None of the recognised goodwill is expected to be deductible for income tax purposes.

Treasury shares acquired were previously accounted for by Subsea 7 Inc. as financial assets held-for-sale. Post acquisition they are accounted for as treasury shares.

On Combination, the Group recognised contingent liabilities of $35.7 million in accordance with IFRS 3. Details of these contingent liabilities and the amounts provided are included within Note 32 'Provisions' and Note 33 'Commitments and contingent liabilities'. In addition, a current tax liability of $12.5 million was recognised in respect of corporate tax contingencies that may arise in various jurisdictions. The Group does not believe that the likelihood of the contingencies arising is probable.

Post Combination the Group's operations were integrated with resources, including vessels and people, shared within the combined Group. As a result, it is impracticable to accurately measure the revenue and profits for the Subsea 7 Inc. group, as if it were a standalone entity for the period. If the Combination had taken place at the beginning of the period, revenue from continuing operations for the Group would have been $5,652.4 million and the net income after taxes from continuing operations for the Group would have been $452.4 million.

Transaction costs of $0.3 million have been expensed in the period and are included in administrative expenses.

The non-controlling interest in Engineering Subsea Solutions Limited (ESS), an indirect subsidiary of Subsea 7 Inc., was recorded at $Nil. The ESS group had net liabilities as at 7 January 2011.

## 14. Goodwill

The movement in goodwill during the year was as follows:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| At period beginning | **–** | – |
| Acquired in business combination (Note 13) | **2,538.5** | – |
| Exchange differences | **28.1** | – |
| **At period end** | **2,566.6** | – |

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

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| AFGoM | **732.1** | – |
| NSMC | **1,037.8** | – |
| Brazil | **292.9** | – |
| APME | **390.0** | – |
| i-Tech | **70.4** | – |
| VERIPOS | **43.4** | – |
| **Total** | **2,566.6** | – |

The Group performed its annual impairment test as at 31 December 2011.

The recoverable amount of the cash-generating units (CGUs) have been determined based on a value-in-use calculation using cash flow projections approved by senior management covering a five-year period. The pre-tax discount rates applied to cash flow projections were in the range 12.2% – 14.9% and, for the purposes of these calculations, cash flows beyond the five-year period were extrapolated using a 0% growth rate.

As a result of the analyses, management did not identify an impairment for any of the CGUs to which goodwill is 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 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 our fleet of vessels and equipment has a significant impact on our ability to earn revenue and on our profitability. Asset utilisation is based on historic utilisation rates, adjusted for any foreseen changes in the market and for new vessels being delivered.

Market share – These assumptions are important because management must assess, using judgement and historic information, how much of the available work will be won by the CGU, relative to its competitors.

Growth rate estimates – For the purposes of these calculations the long-term rate used to extrapolate the budget is 3%. This is below market expectation for long-term growth in the subsea sector, but reflects the current market conditions and market uncertainty.

### Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of all affected CGUs, as at the date of assessment, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount.

## 15. Intangible assets

| For the period (in $ millions) | Software | Customer contracts (Backlog) | Developed technology | Other intangibles | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 December 2009 | 27.5 | – | – | 0.9 | 28.4 |
| Additions | 6.2 | – | – | – | 6.2 |
| Exchange differences | (1.6) | – | – | – | (1.6) |
| At 30 November 2010 | 32.1 | – | – | 0.9 | 33.0 |
| Additions | 4.3 | – | – | – | 4.3 |
| Derecognition | (21.7) | – | – | – | (21.7) |
| Acquired through business combination (Note 13) | 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** |
| | | | | | |
| **Amortisation:** | | | | | |
| At 1 December 2009 | 19.0 | – | – | – | 19.0 |
| Charge for the year | 1.6 | – | – | – | 1.6 |
| Exchange differences | (0.7) | – | – | – | (0.7) |
| Impairment[(a)] | 7.0 | – | – | – | 7.0 |
| At 30 November 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** |
| | | | | | |
| Carrying amount: | | | | | |
| At 30 November 2010 | 5.2 | – | – | 0.9 | 6.1 |
| **At 31 December 2011** | **11.4** | **12.5** | **10.1** | **0.9** | **34.9** |

(a) Software development costs with a carrying value of $7.0 million, with doubtful future economic benefits following the announcement of the acquisition of Subsea 7 Inc., were impaired during the period.

## 16. Property, plant and equipment

| For the period (in $ millions) | Construction support vessels | Operating equipment | Land and buildings | Other assets | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 December 2009 | 736.1 | 658.6 | 2.1 | 35.4 | 1,432.2 |
| Additions | 472.6 | 115.0 | 0.4 | 4.8 | 592.8 |
| Exchange differences | (3.4) | (11.2) | (0.1) | (2.4) | (17.1) |
| Disposals | (22.8) | (9.0) | (2.1) | (2.6) | (36.5) |
| Transfers | 83.6 | (98.3) | 7.2 | 7.5 | – |
| At 30 November 2010 | 1,266.1 | 655.1 | 7.5 | 42.7 | 1,971.4 |
| Additions | 458.7 | 129.7 | 44.2 | 36.3 | 668.9 |
| Acquired through business combination (Note 13) | 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** | **2,984.4** | **947.4** | **212.5** | **44.0** | **4,188.3** |
| | | | | | |
| **Accumulated depreciation:** | | | | | |
| At 1 December 2009 | 316.3 | 265.9 | 2.6 | 25.6 | 610.4 |
| Charge for the year | 56.2 | 52.7 | 0.7 | 6.6 | 116.2 |
| Exchange differences | (1.6) | (5.5) | – | (1.7) | (8.8) |
| Eliminated on disposals | (14.4) | (7.8) | (0.5) | (2.5) | (25.2) |
| Transfers | 42.5 | (43.9) | (0.7) | 2.1 | – |
| At 30 November 2010 | 399.0 | 261.4 | 2.1 | 30.1 | 692.6 |
| Charge for the year | 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** | **495.2** | **298.1** | **12.1** | **30.7** | **836.1** |
| | | | | | |
| **Carrying amount:** | | | | | |
| At 30 November 2010 | 867.1 | 393.7 | 5.4 | 12.6 | 1,278.8 |
| **At 31 December 2011** | **2,489.2** | **649.3** | **200.4** | **13.3** | **3,352.2** |

Included in the table above are assets under construction of $730.3 million (2010 $358.9 million).

The impairment of $15.9 million recognised in the period (2010: $Nil) relates to the *Acergy Falcon* which was impaired prior to its sale during the period. The vessel's recoverable amount was estimated using its fair value less costs to sell. This asset belonged to the NSMC Territory.

## 17. Interest in associates and joint ventures

### Investment in associates and joint ventures

| (in $ millions) | Year End | Country/Place of Registration | Territory | | Ownership % | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|---|---|---|---|---|
| Dalia[(a)] | 31 December | France | AFGoM | Associate | 17.5 | **1.0** | 2.1 |
| Oceon | 31 December | Nigeria | AFGoM | Associate | 40 | **–** | – |
| Deep Seas Insurance Limited | 31 December | Cayman Islands | CORP | Associate | 49 | **1.9** | – |
| GSNC Shallow | 31 December | Brazil | Brazil | Joint Venture | 50 | **5.0** | – |
| NigerStar 7 Limited | 31 December | Nigeria | AFGoM | Joint Venture | 49 | **0.1** | – |
| NKT Flexibles | 31 December | Denmark | CORP | Joint Venture | 49 | **123.1** | 94.6 |
| SapuraAcergy | 31 January | Malaysia | APME | Joint Venture | 50 | **31.6** | 15.6 |
| Seaway Heavy Lifting | 31 December | Cyprus/ Netherlands | CORP | Joint Venture | 50 | **97.8** | 102.8 |
| Subsea 7 Malaysia Sdn Bhd | 31 December | Malaysia | APME | Joint Venture | 30 | **3.0** | – |
| Technip Subsea 7 | 31 December | England, Australia, Singapore, Netherlands | APME | Joint Venture | 45 | **0.6** | – |
| **Total** | | | | | | **264.1** | 215.1 |

(a) Subsea 7 owns 17.5% and has a significant influence in Dalia. Subsea 7 has a veto on decision-making as decisions require unanimous agreement.

## 17. Interest in associates and joint ventures *continued*

The movement in the balance of equity investments, including long-term advances, during the periods 2011 and 2010 was as follows:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| At period beginning | **215.1** | 190.3 |
| Share of net income of associates and joint ventures | **103.7** | 74.8 |
| Dividends distributed to the Group | **(61.3)** | (30.2) |
| Investment acquired from business combination (Note 13) | **7.7** | – |
| Increase in investment | **–** | 14.0 |
| Reclassification of negative equity balance | **–** | (12.1) |
| Change in fair value of derivative instruments | **1.1** | (5.1) |
| Exchange differences | **(2.2)** | (16.6) |
| **At period end** | **264.1** | 215.1 |

Share of net income of associates and joint ventures:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Seaway Heavy Lifting | **40.3** | 30.8 |
| NKT Flexibles | **29.4** | 13.7 |
| SapuraAcergy | **27.4** | 28.5 |
| GNSC Shallow | **5.5** | – |
| Oceon | **0.5** | 0.4 |
| Technip Subsea 7 | **0.4** | – |
| Deep Seas Insurance | **0.2** | – |
| Dalia | **–** | 1.4 |
| **Total** | **103.7** | 74.8 |

No long-lived asset impairment charges were recorded by the Group's associates and joint ventures during 2011 or 2010.

Taxation in respect of the NKT Flexibles joint venture, which has the legal status of a partnership, has been included in the results of the relevant subsidiaries, which hold the investments in the joint venture. Undistributed reserves of all other joint ventures will not be taxed on distribution.

### Dividends distributed to the Group

In the period the Group received a total of $61.3 million dividends from five joint ventures (SHL, NKT Flexibles, Technip Subsea 7, Deep Seas Insurance Limited and Dalia).

In 2010 the Group received a total of $30.2 million dividends from three joint ventures (SHL, NKT Flexibles and Dalia). $14.0 million of the SHL dividend was used to increase the Group's investment in this joint venture.

### Increase in investment

In the period the Group invested an additional $Nil (2010: $14.0 million) to increase its investment in SHL. The Group has additional commitments to the SHL and SapuraAcergy joint ventures as described in Note 33 'Commitments and contingent liabilities'.

### 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.

Following the delivery of the new vessel *Oleg Strashnov*, SHL dividends payments in the period of 18 months beginning on March 2011 are restricted to 75% of SHL net income.

### Capital Commitments

NKT Flexibles has entered into a number of contracts for delivery during 2012 – 2015 committing the joint venture to deliver flexible pipe systems. It has also entered into a number of contracts concerning the construction of a production facility in Brazil amounting to DKK 348 million ($61.1 million). The total obligations at 31 December 2011 amount to DKK 674 million ($118 million).

### Reclassification of negative equity balance

The Group accrues losses in excess of the investment value when it is committed to providing ongoing financial support to the joint venture.

The Group's share of any net liabilities of joint ventures is offset against long-term funding provided to that joint venture. Any additional share of net liabilities is classified as other non-current liabilities. In the period a reversal of $Nil (2010: $11.6 million) was recorded against long-term funding, relating to SapuraAcergy losses previously offset against funding. A reversal of $Nil (2010: $0.5 million) was recorded against other non-current liabilities relating to Oceon losses previously offset against liabilities.

### 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 (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| Revenue | **595.2** | 880.5 |
| Operating expenses | **(370.8)** | (542.9) |
| **Gross profit** | **224.4** | 337.6 |
| Other income | **0.3** | 14.9 |
| Other expenses | **(43.6)** | (153.5) |
| **Net income** | **181.1** | 199.0 |

### Aggregated balance sheet data for associates and joint ventures

| As at (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| Current assets | **760.2** | 725.2 |
| Non-current assets | **918.4** | 864.1 |
| **Total assets** | **1,678.6** | 1,589.3 |
| Current liabilities | **613.2** | 460.1 |
| Non-current liabilities | **527.9** | 610.4 |
| **Total liabilities** | **1,141.1** | 1,070.5 |

### Transactions with associates and joint ventures

Certain contractual services are conducted with joint ventures for commercial reasons.

In the period the Group provided services to joint ventures and associates amounting to $49.4 million revenue (2010: $13.9 million).

In the period, the Group purchased goods and services from joint ventures and associates amounting to $10.2 million (2010: $17.0 million).

The Consolidated Balance Sheet included:

| (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| Non-current amounts due from associates and joint ventures (Note 18) | **26.0** | 43.2 |
| Trade receivables with associates and joint ventures (Note 21) | **24.8** | 22.5 |
| Trade payables with associates and joint ventures | **–** | – |
| **Net receivables with associates and joint ventures** | **50.8** | 65.7 |

For guarantee arrangements with associates and joint ventures Note 28 'Borrowings'.

## 18. Advances and receivables

| As at (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| Non-current amounts due from associates and joint ventures (Note 17) | **26.0** | 43.2 |
| Capitalised fees for long-term loan facilities | **5.2** | 7.3 |
| Deposits held by third parties | **6.8** | 4.8 |
| Finance lease receivables | **1.5** | – |
| Other receivables | **13.3** | – |
| Prepaid expenses | **12.2** | 7.4 |
| **Total** | **65.0** | 62.7 |

The fees for the loan facilities (refer to Note 28 'Borrowings') are deferred and expensed over the periods for which each loan facility is held.

Prepaid expenses are incurred in the normal course of business and represent expenditure which will be recognised in a period exceeding twelve months.

## 19. Finance lease receivables

From July 2011, the *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 were:

| As at (in $ millions) | 2011 31 Dec Gross Investment | 2011 31 Dec Present value of minimum lease payments | 2010 30 Nov Gross Investment | 2010 30 Nov Present value of minimum lease payments |
|---|---|---|---|---|
| Investment in finance lease contracts: | | | | |
| Within one year | **1.3** | **1.2** | – | – |
| Years two to five exclusive | **2.0** | **1.5** | – | – |
| Total | **3.3** | **2.7** | – | – |
| Less unearned finance revenues | **(0.6)** | **–** | – | – |
| **Net investment in finance lease contracts** | **2.7** | **2.7** | – | – |

## 20. Inventories

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Materials and spares | **47.1** | 13.8 |
| Consumables | **10.3** | 10.3 |
| **Total** | **57.4** | 24.1 |

| | | |
|---|---|---|
| Total amount of inventory charged to Consolidated Income Statement | **125.1** | 22.9 |
| Write-down on inventory charged to Consolidated Income Statement | **1.1** | 0.5 |

The inventories include a provision for obsolescence as at 31 December 2011 of $6.8 million (2010: $4.1 million). During the period $0.6 million (2010: $Nil) of the provision for obsolescence was reversed due to slow moving items which were subsequently consumed during the period. There are no inventories pledged as security for liabilities.

## 21. Trade and other receivables

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Trade receivables (Note 35) | **554.0** | 248.7 |
| Allowance for doubtful debts | **(4.9)** | (1.5) |
| Net trade receivables | **549.1** | 247.2 |
| Current amounts due from associates and joint ventures (Note 17) | **24.8** | 22.5 |
| Advances to suppliers | **77.7** | 9.9 |
| Other taxes receivable | **80.3** | 47.1 |
| Finance lease receivable | **1.2** | – |
| Other receivables | **39.9** | 55.3 |
| **Total** | **773.0** | 382.0 |

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 are for sales tax, withholding tax, social security and other indirect taxes.

Other receivables include amounts receivable from employees and insurance claims.

## 22. Assets classified as held for sale

Assets held for sale as at 31 December 2011 and 30 November 2010 were:

Investments in Sonamet and Sonacergy: On 23 July 2009, the Group entered into a sale agreement to dispose of 19% of its ownership interest in each of Sonamet Industrial, S.A ('Sonamet') and Sonacergy – Servicos E Construcoes Petroliferas Lda (Zona Franca Da Madeira) ('Sonacergy'), Sonamet operates a fabrication yard for clients, including Subsea 7, operating in the offshore oil and gas industry in Angola. Sonacergy provides overseas logistics services and support to Sonamet. The disposal of a 19% interest in each of Sonamet and Sonacergy will result in a reduction of the 55% ownership interest the Group held in each at 31 December 2011, to 36% at which point the investment will be equity accounted. The finalisation of this sale is conditional upon the completion of certain conditions precedent, none of which are in the control of the Group, which were still outstanding as at 31 December 2011. There is no indication that the sale will not proceed as anticipated and the Group expects completion during 2012. The Group believes continued disclosure as an asset held for sale is appropriate.

At 30 November 2009 the carrying value of the net assets of Sonamet and Sonacergy was assessed for impairment and determined to be greater than the fair value less costs to sell. Therefore an impairment charge of $4.8 million was recognised in the Consolidated Income Statement in net operating income.

At 30 November 2010 a decrease in the net asset value of assets held for sale resulted in a reversal of $3.2 million of the impairment charge recognised in 2009. This reversal has been recognised in the Consolidated Income Statement in net operating income.

At 31 December 2011 the carrying value of the net assets of Sonamet and Sonacergy was assessed for impairment and determined to be greater than the fair value less costs to sell. Therefore a further impairment charge of $9.5 million was recognised in the Consolidated Income Statement in net operating income.

At the period end the major classes of assets and liabilities comprising the 100% interest of the operations classified as held for sale were as follows:

| As at (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| Property, plant and equipment | **169.1** | 127.5 |
| Goodwill and other intangible assets | **2.7** | 1.9 |
| Inventories | **17.9** | 14.2 |
| Trade and other receivables | **73.2** | 45.9 |
| Other accrued income and prepaid expenses | **5.0** | 2.3 |
| Cash and cash equivalents | **51.5** | 63.7 |
| Total assets classified as held for sale | **319.4** | 255.5 |
| | | |
| Non-current portion of borrowings | **10.1** | 12.8 |
| Trade and other payables | **103.5** | 79.4 |
| Current portion of borrowings | **–** | 4.7 |
| Current tax liabilities | **0.8** | 2.1 |
| Deferred revenue | **74.0** | 35.5 |
| Total liabilities associated with assets classified as held for sale | **188.4** | 134.5 |
| **Net assets classified as held for sale** | **131.0** | 121.0 |

### $15 million loan facility

On 26 May 2008 Sonamet entered into a $15.0 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, but 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 2011 $10.1 million (2010: $12.8 million) was drawn on this facility and there are no covenants over this facility.

### Other facilities

A $Nil (2010: $4.7million) unsecured loan was provided by Sonangol to Sonamet bearing interest at a fixed rate of 2.75% per year and was repaid during 2011.

### Other guarantee arrangements

There is also an unsecured local facility in Madeira for the sole use of Sonacergy. The facility is with Banco Espirito Santo S.A. for $8.0 million. The bonds under this facility were issued to guarantee the project performance of the subsidiary to third parties in the normal course of business. The amount issued under this facility as at 31 December 2011 was $0.2 million (2010: $8.5 million).

The allocation of assets and liabilities held for sale by segment is as follows:

| As at (in $ millions) | 2011 31 Dec Assets | 2011 31 Dec Liabilities | 2010 30 Nov Assets | 2010 30 Nov Liabilities |
|---|---|---|---|---|
| AFGoM | **319.4** | **188.4** | 255.5 | 134.5 |

## 23. Other accrued income and prepaid expenses

| As at (in $ millions) | 2011 31 Dec | 2010 30 Nov Restated[(a)] |
|---|---|---|
| Unbilled revenue | **320.6** | 96.3 |
| Prepaid expenses | **62.5** | 33.9 |
| **Total** | **383.1** | 130.2 |

(a) See Note 3 'Significant accounting policies' for details of restatement.

Unbilled revenue relates to completed work other than lump-sum construction 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 year.

## 24. Construction contracts

| As at (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| **Contracts in progress at balance sheet date:** | | |
| Construction contracts – assets | **515.1** | 112.1 |
| Construction contracts – liabilities | **(383.6)** | (198.4) |
| **Total** | **131.5** | (86.3) |
| | | |
| Contract costs incurred plus recognised net profits less recognised losses to date | **5,882.5** | 2,656.8 |
| Less: progress billings | **(5,751.0)** | (2,743.1) |
| **Total** | **131.5** | (86.3) |

As at 31 December 2011, retentions held by clients for contract work amounted to $0.1 million (2010: $3.1 million). Advances received from clients for contract work amounted to $196.8 million (2010: $19.4 million) (included within Note 39 'Deferred revenue').

## 25. Issued share capital

### Authorised shares

| As at | 2011 31 Dec Number of shares | 2011 31 Dec in $ millions | 2010 30 Nov Number of shares | 2010 30 Nov in $ millions |
|---|---|---|---|---|
| **Authorised common shares, $2.00 par value** | **450,000,000** | **900.0** | 450,000,000 | 900.0 |

At the Extraordinary General Meeting of Shareholders held on 9 November 2010 the Articles of Incorporation were amended to increase the authorised share capital from 230 million to 450 million common shares effective immediately.

### Issued shares

| As at | 2011 31 Dec Number of shares | 2011 31 Dec in $ millions | 2010 30 Nov Number of shares | 2010 30 Nov in $ millions |
|---|---|---|---|---|
| **Fully paid and issued common shares** | **351,793,731** | **703.6** | 194,953,972 | 389.9 |
| The issued common shares consist of: | | | | |
| Common shares excluding own shares (see below) | **338,738,329** | **677.5** | 183,939,210 | 367.9 |
| Own shares (Note 26) | **13,055,402** | **26.1** | 11,014,762 | 22.0 |
| **Total** | **351,793,731** | **703.6** | 194,953,972 | 389.9 |

The Company has one class of shares.

The increase in common shares excluding own shares of 156,839,759 related wholly to the new shares issued in January 2011 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 $3.95 billion.

## 26. Own shares

The summary of 'own shares' represents the purchase of the Company's own common shares at the market price on the date of purchase and the movements are shown in the table below:

| For the period | 2011 31 Dec Number of shares | 2011 31 Dec in $ millions | 2010 30 Nov Number of shares | 2010 30 Nov in $ millions |
|---|---|---|---|---|
| Balance at period beginning | **11,014,762** | **209.2** | 11,746,930 | 222.6 |
| Acquired through business combination (Note 13) | **3,000,343** | **75.6** | – | – |
| Shares reissued to convertible loan note holders (Note 29) | **(2,512,135)** | **(46.6)** | – | – |
| Shares repurchased | **2,512,135** | **60.0** | – | – |
| Shares reissued relating to share based payments | **(959,703)** | **(19.7)** | (732,168) | (13.4) |
| **Balance at period end** | **13,055,402** | **278.5** | 11,014,762 | 209.2 |
| **Consisting of:** | | | | |
| Common shares held as treasury shares by an indirect wholly-owned subsidiary | **10,403,599** | | 10,431,762 | |
| Common shares held as treasury shares by employee benefit trusts | **2,651,803** | | 583,000 | |
| **Total** | **13,055,402** | | 11,014,762 | |

At the period end, Subsea 7 S.A. owned 10,403,599 (2010: 10,431,762) common shares indirectly (as treasury shares), representing 2.96% (2010: 5.35%) of the total number of issued shares. These shares were owned as treasury shares through Subsea 7 S.A.'s indirect subsidiary Subsea 7 Investing (Bermuda) Limited. A further 914,000 (2010: 583,000) common shares were held by an employee benefit trust to satisfy performance shares under the Group's 2009 Long-term Incentive Plan and a further 1,737,803 (2010: Nil) 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) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| At period beginning | **56.8** | 31.2 |
| Share of net income for the period | **27.0** | 47.6 |
| Dividends | **(31.4)** | (20.0) |
| Acquired by the Group | **(0.9)** | – |
| Foreign currency exchange rate changes | **–** | (2.0) |
| **At period end** | **51.5** | 56.8 |

The Group's respective interest in subsidiaries which are not wholly owned is as follows:

| | **2011 31 Dec %** | 2010 30 Nov % |
|---|---|---|
| Sonamet – Industrial SA | **55.0** | 55.0 |
| Sonacergy – Servicos E Construcoes Petroliferas Lda | **55.0** | 55.0 |
| Pelagic Nigeria Limited | **100.0** | 80.0 |
| Offshore Installer Nigeria Limited | **60.0** | 60.0 |
| Acergy Havila Limited | **50.0** | 50.0 |
| Globestar Engineering Company (Nigeria) Limited | **98.8** | 96.2 |
| Acquired in business combination: | | |
| Engineering Subsea Solutions Limited | **75.0** | – |
| SES – Subsea Engineering Solutions, Inc. | **75.0** | – |
| SES Engineering (Shanghai) Co. Ltd. | **75.0** | – |
| Subsea 7 Mexico S. de RL de CV | **52.0** | – |
| Naviera Subsea 7 S de RL de CV | **49.0** | – |
| Servicos Subsea 7 S de RL de CV | **52.0** | – |

The Group purchased the 20% Non-controlling interest in Pelagic Nigeria Limited during the period. Further, the Group purchased 2.6% of the Non-controlling interest in Globestar Engineering Company (Nigeria) Limited.

## 28. Borrowings

Borrowings consist of:

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| $500 million 2.25% convertible loan notes due 2013 (Note 29) | **458.1** | 435.3 |
| $275 million 3.5% convertible loan notes due 2014 (Note 29) | **276.4** | – |
| Seven Havila loan | **158.9** | – |
| **Total** | **893.4** | 435.3 |
| Consisting of: | | |
| Non-current portion of borrowings | **880.5** | 435.3 |
| Current portion of borrowings | **12.9** | – |
| **Total** | **893.4** | 435.3 |

Commitment fees for any unused lines of credit expensed during the period were $4.4 million (2010: $1.6 million). The weighted average interest rate paid on the $1 billion multi-currency revolving credit and guarantee facility was 0.0%.

### Facilities

#### The $1 billion multi-currency revolving credit and guarantee facility ($1 billion facility)

The $1 billion facility executed with a number of banks can be used in full for the issuance of guarantees, or for a combination of guarantees and cash drawings subject to a $500 million sub-limit for cash drawings. The $1 billion facility is guaranteed by Subsea 7 S.A., Class 3 Shipping Limited, Subsea 7 Shipping Limited, Subsea 7 Treasury (UK) Limited, Subsea 7 Inc. and Subsea 7 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 $1 billion 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 112), 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.

## 28. Borrowings *continued*

### Seven Havila Loan

Acergy Havila Limited is a 50/50 joint venture between Acergy (Gibraltar) Limited (wholly owned by Subsea 7 S.A.) and Havila Shipping Pte Ltd. (wholly owned by Havila Shipping ASA). On 14 October 2008 Acergy Havila Limited completed a loan with Eksportfinans and guarantee facility for post-delivery financing of up to NOK 977.5 million ($176.3 million), with a total loan of NOK 1,086.75 million of which NOK 109.25 million is available at defined future dates within the facility, for the purchase of a dive support vessel to be owned by the joint venture following delivery in 2012. The final termination date of the facility is no later than 28 February 2021.

A first priority mortgage on the vessel has been provided as security on the facility. A charter guarantee has been provided by Subsea 7 S.A. In the event of an event of default occurring this turns into a several guarantee to be shared 50/50 by Subsea 7 S.A. and Havila Shipping ASA.

Interest on the drawn loan facility is at a fixed rate of 4.65% per year until 2016 when the rate will be set by reference to commercial interest rates in 2016. An additional facility is also available at NIBOR plus 1.65% with guarantee commission payable at 1% per year.

### Utilisation of the $1 billion facility and the Seven Havila Loan

| As at (in $ millions) | **2011 31 Dec Utilised** | **2011 31 Dec Unutilised** | **2011 31 Dec Total** | 2010 30 Nov Utilised | 2010 30 Nov Unutilised | 2010 30 Nov Total |
|---|---|---|---|---|---|---|
| Cash loans | **158.9** | **517.4** | **676.3** | – | 509.3 | 509.3 |
| Guarantee facilities | **293.0** | **207.0** | **500.0** | 330.3 | 318.0 | 648.3 |
| **Total** | **451.9** | **724.4** | **1,176.3** | 330.3 | 827.3 | 1,157.6 |

### Bank overdraft and short-term lines of credit

The overdraft facilities consist of $8.6 million (2010: $35.5 million) of which $Nil (2010: $Nil) was drawn as at 31 December 2011.

### Other facilities

In addition to the above there are a number of uncommitted, unsecured bi-lateral guarantee arrangements in place in order to provide specific geographical coverage. The total utilisation of these facilities was $289.6 million.

### Guarantee arrangements with joint ventures

SapuraAcergy Assets Pte Limited ('SAPL'), previously known as Nautical Vessels Pte Limited, is a 50/50-owned joint venture between Nautical Essence Sdn. Bhd. (wholly owned by SapuraCrest Petroleum Berhad) and Acergy (Gibraltar) Limited (wholly owned by Subsea 7 S.A.).

In 2007 the respective parent companies issued a Charter Guarantee guaranteeing the charter payments from the charterer of *Sapura 3000*, SapuraAcergy Sdn. Bhd. vessel to the vessel owner, SAPL. The limit of the guarantee is, at any time 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, severally, will have to service the debt by way of charter payments due from the charterer to the ship owner until the termination date of the loan, which is 2 February 2015.

SapuraAcergy Sdn. Bhd. ('SASB') is a 50/50-owned joint venture between Nautical Essence Sdn. Bhd. (wholly owned by SapuraCrest Petroleum Berhad) and Acergy (Gibraltar) Limited (wholly owned by Subsea 7 S.A.). SASB has entered into a $181.3 million multi-currency facility for the financing of the Gumusut-Kakap Project. Both Subsea 7 S.A. and SapuraCrest Petroleum Berhad have issued several guarantees for 50% of the financing respectively. The facility consists of $44.0 million available for the issuance of performance bank guarantees, $60.0 million available for letters of credit, and two revolving credit facilities for $57.3 million and $20.0 million respectively. At 31 December 2011 the amount available for bank guarantees was fully drawn, $16.8 million was drawn under the letter of credit facility and no sum was drawn under the $20.0 million revolving credit facility. There were no drawings under the $57.3 million revolving credit facility.

## 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 period 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 2011 with a conversion price at that date of $22.37 (2010: $22.37) per share following the payment of the dividends since issuance, equivalent to 22,351,363 (2010: 22,351,363) common shares, or approximately 6.6% (2010:12.2%) of the Group's issued share capital as at 31 December 2011. 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 then prevailing conversion price over the above 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.

There were no conversions of the 2013 Notes as at 31 December 2011 (2010: Nil).

The net proceeds received from the issue of the 2013 Notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group, as follows:

| (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)

The Group acquired, as part of the Combination with Subsea 7 Inc., $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 period 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 approximately 4.8% (2010: 0%) of the Group's issued share capital as of 31 December 2011. 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.

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.

There were no conversions of these convertible loan notes as at 31 December 2011 (2010: Nil).

### $229 million 2.8% convertible loan notes due 2011 (2011 Notes)

The Group acquired, as part of the Combination with Subsea 7 Inc., $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 $300,000 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 $62,100,000 (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 (as detailed in Note 26 ' Own shares') common 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.

## 29. Convertible loan notes *continued*

### Acquired convertible loan notes

On Combination the component of the convertible loan notes acquired that exhibits characteristics of a liability was recognised as a liability in the Consolidated Balance Sheet. The fair value of the liability component was determined using a market rate for an equivalent non-convertible loan note. The acquisition date fair value of the convertible notes less the fair value of the 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 component at date of issue | (230.4) | (276.6) |
| **Equity component** | 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) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Liability component at period beginning | **435.3** | 415.6 |
| Notes acquired (including accrued interest) (Note 13) | **509.6** | – |
| Notes converted | **(63.3)** | – |
| Interest held in accruals | **(1.8)** | – |
| Notes redeemed | **(166.8)** | – |
| Interest charged (Note 9) | **45.3** | 31.0 |
| Interest paid | **(23.8)** | (11.3) |
| **Liability component at period end** | **734.5** | 435.3 |

The interest charged in the year is calculated by applying effective rates of: 2011 Notes: 1.4%, 2013 Notes: 7.35%, 2014 Notes: 3.3%.

The movement in the equity components of the convertible notes was as follows:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| At period beginning | **110.7** | 110.7 |
| Notes acquired (Note 13) | **189.5** | – |
| Reclassification of equity component of convertible notes redeemed or converted in period | **(21.6)** | – |
| **At period end** | **278.6** | 110.7 |

## 30. Other non-current liabilities

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Amounts due to non-controlling shareholders of subsidiaries | **–** | 3.9 |
| Accrued salaries and benefits | **1.2** | 5.3 |
| Loan from Non-controlling interest (Note 36) | **18.5** | – |
| Other | **11.2** | 1.2 |
| **Total** | **30.9** | 10.4 |

## 31. Trade and other liabilities

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Accruals | **760.3** | 320.7 |
| Trade payables | **214.4** | 167.7 |
| Accrued salaries and benefits | **180.7** | 147.0 |
| Withholding taxes | **7.0** | 15.7 |
| Interest payable | **0.3** | 0.6 |
| Other taxes payable | **34.9** | 1.5 |
| Other current liabilities | **21.3** | 20.1 |
| **Total** | **1,218.9** | 673.3 |

## 32. Provisions

| For the period (in $ millions) | Legal | Decommissioning | Restructuring | Other | Total |
|---|---|---|---|---|---|
| At 1 December 2009 | 8.8 | 13.1 | – | 11.3 | 33.2 |
| Additional provision in the year | 1.8 | 2.0 | 13.0 | 12.7 | 29.5 |
| Utilisation of provision | (1.4) | (7.5) | – | (3.7) | (12.6) |
| Unused amounts reversed during the year | – | (5.2) | – | (5.8) | (11.0) |
| Unwinding of discount rate (Note 9) | – | (0.3) | – | – | (0.3) |
| Exchange differences | (0.2) | – | – | (0.1) | (0.3) |
| At 30 November 2010 | 9.0 | 2.1 | 13.0 | 14.4 | 38.5 |
| Recognised on business combination (Note 13) | 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 reversed 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** |

| As at period end (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Consists of: | | |
| Non-current provisions | **22.8** | 12.4 |
| Current provisions | **41.6** | 26.1 |
| **Total** | **64.4** | 38.5 |

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 and the liability has been estimated by the Group's legal advisors.

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 2012 to 2015.

The restructuring provision has arisen as a result of the acquisition of Subsea 7 Inc. It is anticipated that the remaining provision will be utilised by the end of period 2012.

The other provisions mainly relate to tax claims (Note 10 'Taxation'), loss provisions on day-rate contracts and provision for costs related to the sale of *Acergy Falcon*.

## 33. Commitments and contingent liabilities

### Commitments

These consist of:

- Commitment to purchase of property, plant and equipment from external suppliers as at 31 December 2011 for $403.4 million (2010: $299.4 million);
- Operating lease commitments as indicated in Note 34 'Operating lease arrangements'; and
- A loan facility to the joint venture Seaway Heavy Lifting (SHL) 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 tax authorities (Secretaria Fazenda Estado Rio de Janeiro and Receita Federal do Brasil). The amount assessed including penalties and interest as at 31 December 2011 amounted to BRL 478.2 million ($257.6 million). At 30 November 2010 the amount assessed including penalties and interest amounted to BRL 136.0 million ($79.2 million). The Group intends to challenge this assessment and will revert to the courts if necessary. As a result of the acquisition, in line with IFRS 3, a contingent liability of $9.3 million has been recognised as at 7 January 2011 in respect of claims made against Subsea 7 Brasil Serviços Ltda, equivalent to $8.5 million as at 31 December 2011, however, no further provision has been made for any payment as the Group does not believe that likelihood of payment is probable.

| For the period (in $ millions) | Contingent liability | Contingent liability recognised |
|---|---|---|
| At 30 November 2010 | 79.2 | – |
| Contingent liability from business combination | 93.1 | 9.3 |
| New assessments (including effect of interest rates changes) | 99.5 | – |
| Exchange differences | (14.2) | (0.8) |
| **At 31 December 2011** | **257.6** | **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 101.0 million ($54.4 million). In line with IFRS 3, a contingent liability of $20.3 million has been recognised as at 7 January 2011, equivalent to $18.5 million as at 31 December 2011 in respect of these notifications. Both cases are sitting with the authorities in Brazil for judgement. The timing and amount of any cash outflow is uncertain.

## 33. Commitments and contingent liabilities *continued*

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 15.6 million ($7.9 million). The cases were all progressed during 2011 but it is not clear when they will be resolved. In line with IFRS 3, a contingent liability of $2.8 million has been recognised as at 7 January 2011, equivalent to $2.6 million as at 31 December 2011 in relation to these claims.

In June 2010, Subsea 7 (Vessel Company) Limited received a claim letter on behalf of Hydrodive International Limited relating to the sale of the vessel *Kommandor Subsea 2000* in 2007. The letter claimed misrepresentation with regard to the condition of the vessel upon sale. The amount of the claim currently stands at $18.6 million. The Group has reviewed the claim with its advisors, and has rejected the claim in both substance and quantum. No further correspondence has been received from the claimant so the timing and magnitude of any cash outflow cannot be determined. In line with IFRS 3, a contingent liability of $0.2 million has been recognised.

A further $3.1 million of contingent liabilities has been recognised as at 7 January 2011 which was updated to $1.5 million as at 31 December 2011 in relation to several other smaller claims.

| For the period (in $ millions) | Contingent liability recognised |
|---|---|
| Contingent liability recognised in business combination | 35.7 |
| Contingent liability subsequently recorded as provision | (1.3) |
| Exchange differences | (3.1) |
| **At 31 December 2011** | **31.3** |

During 2010, the Subsea 7 Inc. group received claim letters on behalf of personnel relating to exposure to dispersant during the Macondo incident. No contingent liability has been recognised for any payments in respect of these claims as a reliable estimate of the amount of the claims cannot be made, the timing of cash outflows relating to these claims cannot be determined and the Group believes that any claim will be covered by contractual indemnities.

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, lawsuits and complaints have been filed against the Group in addition to the ones 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 they should not materially affect its consolidated financial position.

## 34. Operating lease arrangements

### The Group as lessee

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Minimum lease payments under operating leases recognised in operating expenses for the year | **247.7** | 77.2 |

The total operating lease commitments as at 31 December 2011 were $868.8 million (2010: $372.8 million). These consisted of charter hire obligations towards certain construction support, diving support, survey and inspection ships of $613.2 million (2010: $189.7 million). The remaining obligations related to office facilities and equipment as at 31 December 2011 of $255.6 million (2010: $183.1 million).

The Group outstanding lease commitments fall due as follows:

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Within one year | **296.0** | 68.2 |
| Years two to five inclusive | **505.2** | 223.3 |
| After five years | **67.6** | 81.3 |
| **Total** | **868.8** | 372.8 |

The following renewal options have been excluded from the outstanding commitments:

- *Acergy Viking* – ten renewal options consisting of two options for two years and eight options for one year.
- *Skandi Acergy* – four renewal options consisting of two options for two years each and two options for one year each.
- *Far Saga* – four renewal options consisting of one option for three months and three options for one month each.
- *Havila Subsea* – four renewal options consisting of one option for two years and three options for one year each.
- *Skandi Neptune* – three options for one year each.
- *Seisranger* – two options for one year each.
- *Subsea Viking* – two options consisting of one option for one year and one option for 9 months.
- *Normand Seven* – five options for one year each.
- *Normand Subsea* – four options for one year each.
- *Normand Oceanic* – three options for one year each.
- *Skandi Seven* – three options consisting of two options for one year each and one option for two years.
- *Seven Sisters* – five options for one year each.
- *Skandi Skansen* – two options for one year each.

### The Group as sub-lessor

Income from sub-leases earned during the year was $0.1 million (2010: $8.0 million) relating mainly to property sub-lets.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Within one year | **0.1** | 9.0 |
| Years two to five inclusive | **0.1** | 3.3 |
| **Total** | **0.2** | 12.3 |

## 35. Financial instruments

### 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 approved by the Board, which provide written policies on foreign exchange risk, interest rate risk, credit risk, the use of non-derivative financial instruments, and the investment of excess liquidity.

The Group reviews compliance with policies and exposure limits on a continuous 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 current year.

### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Where appropriate exchange rate exposures are managed within approved policy parameters utilising a variety of derivative financial instruments including forward foreign exchange contracts.

The Group's reporting currency is the US Dollar. The majority of net operating expenses and income are denominated in the functional currency of the individual subsidiaries operating in different regions, 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
- NSMC – 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, primarily in Brazil, France, Norway and the United Kingdom and not from its share of the local currency earnings in its operations in AFGoM, Brazil and NSMC.

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. Hence, exposures to exchange rate fluctuations arise. The Group has in place risk management policies that seek to limit the adverse effects of fluctuations in exchange rates on its financial performance.

#### Foreign currency sensitivity analysis

The Group operates in various geographical locations and is exposed to a number of currencies dependent upon the functional currency of individual subsidiaries as indicated in the foreign currency risk section above.

The Group considers that its principal currency exposure is to movements in the US Dollar against other currencies on the basis that the US Dollar is the Group's reporting currency, the functional currency of many of its subsidiaries and the transaction currency of a significant volume of the Group's cash flows. The Group has performed sensitivity analyses to indicate how profit or loss and equity would have been 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 analysis of the impact on profit and loss in each year is based on monetary assets and liabilities in the Consolidated Balance Sheet at the end of each respective year.

The Group analysis of the impact on equity includes the profit and loss movements from above in addition to 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.

## 35. Financial instruments *continued*

The sensitivity analysis includes the impact of exchange rate movements on foreign currency derivatives. 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 losses reported in other gains and losses by $27.5 million (2010: reduction of $23.6 million). The impact on equity would be a reduction in reported net assets of $156.7 million (2010: reduction of $40.9 million).

### Forward foreign exchange contracts

The Group primarily enters into standard forward foreign exchange contracts with maturities of up to five years, to manage the risk associated with transactions when there is a minimum level of exposure risk. These transactions consist of highly probable cash flow exposure relating to operating income and expenditure and capital expenditure.

The following table details the forward foreign exchange contracts outstanding as at the balance sheet date:

### As at 31 December 2011

| | Foreign currency value by contract maturity | | | | US dollar fair value by contract maturity | |
|---|---|---|---|---|---|---|
| | Buy | | Sell | | Maturity | |
| (in millions) | < 1 Year | 1-5 Years | < 1 Year | 1-5 Years | < 1 Year | 1-5 Years |
| Australian Dollar | – | – | 0.2 | – | – | – |
| Brazilian Real | – | – | – | – | – | – |
| 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 | (5.7) | (2.5) |
| **Total** | | | | | **(15.4)** | **(0.4)** |

### As at 30 November 2010

| | Foreign currency value by contract maturity | | | | US dollar fair value by contract maturity | |
|---|---|---|---|---|---|---|
| | Buy | | Sell | | Maturity | |
| (in millions) | < 1 Year | 1-5 Years | < 1 Year | 1-5 Years | < 1 Year | 1-5 Years |
| Australian Dollar | – | – | 1.3 | – | – | – |
| Brazilian Real | 9.6 | 0.8 | – | – | 0.7 | – |
| British Pound Sterling | 10.1 | 5.2 | 48.5 | – | (1.5) | 0.3 |
| Canadian Dollar | 32.8 | – | – | – | (0.2) | – |
| Danish Krone | 40.2 | – | 24.0 | – | (0.4) | – |
| Euro | 195.1 | – | 18.7 | – | (7.5) | |
| Norwegian Krone | 150.1 | 265.4 | 219.3 | – | (1.1) | (2.6) |
| Singapore Dollar | – | – | 2.8 | – | – | – |
| US Dollar | 96.1 | 30.8 | 290.3 | 421.1 | (6.2) | (6.3) |
| Total | | | | | (16.2) | (8.6) |

### Hedge accounting

The following table details the outstanding forward foreign exchange contracts which are designated as hedging instruments as at reporting date:

### As at 31 December 2011

| | Foreign currency value by contract maturity | | | | US dollar fair value by contract maturity | |
|---|---|---|---|---|---|---|
| | Buy | | Sell | | Maturity | |
| (in millions) | < 1 Year | 1-5 Years | < 1 Year | 1-5 Years | < 1 Year | 1-5 Years |
| Cash flow hedges: | | | | | | |
| 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)** |

### As at 30 November 2010

| (in millions) | Foreign currency value by contract maturity Buy < 1 Year | Buy 1-5 Years | Sell < 1 Year | Sell 1-5 Years | US dollar fair value by contract maturity Maturity < 1 Year | Maturity 1-5 Years |
|---|---|---|---|---|---|---|
| Cash flow hedges: | | | | | | |
| British Pound Sterling | 5.0 | 5.3 | – | – | 0.3 | 0.2 |
| Danish Krone | – | – | – | – | – | – |
| Euro | 21.5 | – | 18.7 | – | (3.5) | – |
| Norwegian Krone | 150.1 | 265.4 | – | – | (1.0) | (2.6) |
| US Dollar | 40.1 | 30.8 | 285.3 | 421.1 | (9.0) | (6.3) |
| Total | | | | | (13.2) | (8.7) |

The Group earns revenue in currencies other than the functional currency of the contracting entity; at the reporting date the main such transactions are US Dollar revenues for customer contracts in the AFGoM Territory. The Consolidated Income Statement is impacted when the services are performed by the Group and the related receivable is consequently recognised. The hedging reserve balance at 31 December 2011 was a loss of $19.6 million (2010: loss of $22.9 million) arising on hedges maturing on or before 31 July 2014. There was no significant difference between the period of cash flow and that of Consolidated Income Statement impact.

The Group incurs operating expenses in currencies other than the functional currency of the operating entity; at the reporting date the main such transactions are a NOK vessel charter and 'one-off' project expenses in US Dollars (primarily for projects in the AFGoM Territory). The Consolidated Income Statement is impacted when the supplier performs the underlying service and the related liability is consequently recognised. The hedging reserve balance at 31 December 2011 is a gain of $8.3 million (2010: gain of $7.1 million) arising on hedges maturing on or before 28 February 2014. There is no material difference between the period of the Consolidated Cash Flow Statement and that of the Consolidated Income Statement impact.

The Group invests capital expenditure amounts in respect of fixed assets which are in currencies other than the functional currency of the asset owning entity: at the reporting date the main transaction is a new-build vessel for a contract in Brazil. 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 2011 is a loss of $11.2 million (2010: gain of $0.1 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 recycled 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 amount to a loss of $0.2 million (2010: gain of $0.1 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) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| As at period beginning | **(15.7)** | 2.4 |
| Gains/(losses) on the effective portion of derivatives deferred to equity: | | |
| hedges on capital expenditure | **(11.9)** | 0.3 |
| hedges on revenue | **8.3** | (38.4) |
| hedges of operating expenses | **2.8** | (2.7) |
| income tax gains/(losses) recognised in equity | **(2.3)** | 6.2 |
| Cumulative deferred (gains)/losses transferred to Consolidated Income Statement (see below): | | |
| hedges on revenue | **(2.9)** | 12.9 |
| hedges of operating expenses | **(1.3)** | 3.8 |
| Cumulative deferred gains/(losses) transferred to initial carrying amount: | | |
| hedges on capital expenditure | **0.5** | (0.2) |
| **Balance at period end** | **(22.5)** | (15.7) |

## 35. Financial instruments *continued*

### Cumulative gains/(losses) transferred from the hedging reserve to the Consolidated Income Statement

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Cumulative deferred gains/(losses) recognised in revenue | **3.3** | (10.8) |
| Cumulative deferred gains/(losses) recognised in operating expenses | **0.9** | (3.2) |
| Cumulative deferred losses recognised in other gains and losses | **–** | (2.7) |
| **Total** | **4.2** | (16.7) |

A loss of $0.3 million was transferred to the Consolidated Income Statement in respect of forecast transactions no longer expected to occur (2010: $Nil).

### Interest rate risk management

The Group places surplus funds on the money markets to generate an investment return for short durations only, 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 2011, 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%. Consequently a mark-to-market loss of $4.9 million has been recognised in the balance sheet as at 31 December 2011. Movements in fair value are recognised in the Consolidated Income Statement.

The Group borrows funds at fixed and variable interest rates and has certain revolving credit and guarantee facilities (Note 28 'Borrowings').

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this Note.

#### 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 111) and ranges from 0.8% to 1.9% per year. As at 31 December 2011 the Group had significant cash deposits leaving it in net cash position at a margin of 0.8% and it would have required a significant reduction in Adjusted EBITDA during period 2011 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, derivative instruments and the granting of financial guarantees. 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 only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group only invests with institutions that are rated the equivalent of investment grade and above, except for an insignificant amount of cash held at a lower than investment grade institution. This information 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 by the risk management committee annually. 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.

Net trade receivables (Note 21 'Trade and other receivables') consist of a large number of clients, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The following table places clients in three debtor categories of outstanding balances:

| As at | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Trade debtor category | **Debtor category percentage** | Debtor category percentage |
| National oil and gas companies | **17%** | 5% |
| International oil and gas companies | **61%** | 75% |
| Independent oil and gas companies | **22%** | 20% |
| **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 distinction between them ultimately relates to the way the company describes itself.

The following table details the maturity analysis for trade receivables.

### 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** |

### As at 30 November 2010

| (in $ millions) | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|---|---|
| Trade receivables | 156.9 | 72.3 | 18.0 | – | – | 247.2 |
| Trade receivables considered impaired | – | – | – | 1.5 | – | 1.5 |
| Total trade receivables | 156.9 | 72.3 | 18.0 | 1.5 | – | 248.7 |

Trade receivables balances beyond the one month ageing category in the table above are considered past due but not impaired. The credit quality of these amounts is considered sound. 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 cash and cash equivalents, debtors, and derivative assets accounts.

### Concentration of credit risk

The Group depends on certain significant clients. During the period four clients (2010: two clients) contributed to more than 10% of the Group's revenue from continuing operations. The contribution from these clients was $2,877.9 million or 53% (2010: $837.7 million or 35%). The amounts of the receivables balance of the Group's top five clients as at 31 December are shown in the table below:

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** |

As at 30 November (in $ millions)

| Counterparty | 2010 |
|---|---|
| Client F | 119.6 |
| Client G | 37.8 |
| Client H | 13.5 |
| Client I | 13.2 |
| Client J | 11.0 |

The client mix for outstanding accounts receivable balances in 2011 is not the same as 2010.

The Group does not have any significant credit risk exposure to any single counterparty as at 31 December 2011. 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.

The table below shows the carrying value of amounts on deposit at the balance sheet date using the Standard and Poor's credit rating.

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Counterparty | **Carrying amount** | Carrying amount |
| Counterparties rated AAA | **99.0** | – |
| Counterparties rated AA- to AA+ | **10.0** | 153.5 |
| Counterparties rated A- to A+ | **165.0** | 43.5 |
| Counterparties rated BBB + or below | **–** | 12.0 |

### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk 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.

## Notes to the Consolidated Financial Statements

### 35. Financial instruments *continued*

#### Liquidity and interest risk 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 Group can be required to pay. The table consists of the principal cash flows:

#### 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 | **138.0** | **29.2** | **39.4** | **7.8** | **–** | **214.4** |
| Convertible loan notes | **–** | **–** | **20.9** | **805.5** | **–** | **826.4** |

#### As at 30 November 2010

| (in $ millions) | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|---|---|
| Trade payables | 103.1 | 41.8 | 22.0 | 0.8 | – | 167.7 |
| Convertible loan notes | – | – | 11.3 | 522.5 | – | 533.8 |

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 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** |
| 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** | **3.3** | **20.7** | **12.8** | **–** | **37.8** |

#### As at 30 November 2010

| (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 | – | 0.2 | 1.3 | – | – | 1.5 |
| Gross settled: | | | | | | |
| Foreign exchange forward contract payments | 276.4 | 135.4 | 335.0 | 413.0 | – | 1,159.8 |
| Foreign exchange forward contract receipts | (270.4) | (127.3) | (322.7) | (406.7) | – | (1,127.1) |
| Total | 6.0 | 8.3 | 13.6 | 6.3 | – | 34.2 |

#### Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract;
- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is 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;
- the fair value of derivative instruments is 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; and
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

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) | **2011 31 Dec Carrying amount** | **2011 31 Dec Fair value** | 2010 30 Nov Carrying amount | 2010 30 Nov Fair value |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Financial assets at FVTPL: | | | | |
| Cash and cash equivalents | **803.4** | **803.4** | 484.3 | 484.3 |
| Restricted cash deposits | **52.7** | **52.7** | 3.0 | 3.0 |
| Fair value through profit or loss | **17.3** | **17.3** | 8.9 | 8.9 |
| Derivative instruments in designated hedge accounting relationships | **2.2** | **2.2** | 3.9 | 3.9 |
| Loans and receivables: | | | | |
| Net trade receivables (Note 21) | **549.1** | **549.1** | 247.2 | 247.2 |
| Employee loans | **0.2** | **0.2** | 1.2 | 1.2 |
| **Financial liabilities:** | | | | |
| Financial liabilities at FVTPL: | | | | |
| Fair value through profit or loss | **21.1** | **21.1** | 11.8 | 11.8 |
| Derivative instruments in designated hedge accounting relationships | **19.4** | **19.4** | 25.8 | 25.8 |
| Loans and receivables: | | | | |
| Borrowings – Other debt (including current portion) | **158.9** | **158.9** | – | – |
| Borrowings – Convertible loan notes | **734.5** | **759.6** | 435.3 | 470.5 |

## Risk exposure and responses

| Fair value As at (in $ millions) | **2011 31 Dec Quoted market price (Level 1)** | **2011 31 Dec Valuation technique: market observable inputs (Level 2)** | **2011 31 Dec Valuation technique: non-market observable inputs (Level 3)** | 2010 30 Nov Quoted market price (Level 1) | 2010 30 Nov Valuation technique: market observable inputs (Level 2) | 2010 30 Nov Valuation technique: non-market observable inputs (Level 3) |
|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | |
| Fair value through profit or loss | **–** | **17.3** | **–** | – | 8.9 | – |
| Derivative instruments in designated hedge accounting relationships | **–** | **2.2** | **–** | – | 3.9 | – |
| **Financial liabilities:** | | | | | | |
| Fair value through profit or loss | **–** | **21.1** | **–** | – | 11.8 | – |
| Derivative instruments in designated hedge accounting relationships | **–** | **19.4** | **–** | – | 25.8 | – |

## Assumptions used in determining fair value of financial assets and liabilities

### Restricted cash deposits

The carrying amounts of restricted cash deposits approximate 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 debtor amounts owing and includes taking into consideration any amounts of possible doubtful debt.

### Employee loans

The carrying amounts of employee loans approximate their fair value. The value of these debts is based on actual amounts to be repaid in the future.

### Borrowings – Convertible loan notes

The fair value of the liability component of convertible loan notes is determined assuming redemption on maturity and using the market interest rate available to the Group as at the balance sheet date.

### Forward foreign exchange contracts

The fair value of outstanding financial instruments (as indicated above in the table as FVTPL and derivative instruments) is calculated using appropriate market information and valuation methodologies. In some cases, judgement is required to develop the estimates of fair values, thus the estimates provided herein are not necessarily indicative of the amounts that could be realised in a current market exchange.

### Interest rate swap

The fair value of the Group's interest rate swap is calculated using independently verified market information and valuation methodologies. The interest rate swap contract will be settled on a net basis. The contract matures in 2016.

## 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 stakeholders through the optimisation of the debt and equity balance.

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 equity holders of the parent, comprising issued capital, reserves and retained earnings.

## 35. Financial instruments *continued*

The Group monitors capital on the basis of debt service ratio (net debt/Adjusted EBITDA (see additional information)) 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) | **2011 31 Dec** | 2010 30 Nov Restated[a] |
|---|---|---|
| Principal value of convertible loan note borrowings (Note 29) | **775.0** | 500.0 |
| Seven Havila loan | **158.9** | – |
| Deferred revenue (Note 39) | **210.7** | 19.4 |
| Operating lease arrangements (Note 34) | **868.8** | 372.8 |
| Cash and cash equivalents | **(803.4)** | (484.3) |
| **Net debt** | **1,210.0** | 407.9 |
| Adjusted EBITDA | **1,003.3** | 619.0 |
| **Debt service ratio** | **1.21x** | 0.66x |

### Debt volume

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| **Net debt (as above)** | **1,210.0** | 407.9 |
| Enterprise value | **7,775.7** | 4,180.5 |
| **Debt volume** | **16%** | 10% |

(a) See Note 3 'Significant accounting policies' for details of restatement.

## 36. Related party transactions

### Key management personnel

Key management personnel includes the Board of Directors and the Executive Management Team (2010: key management included the Board of Directors, Vice presidents of each of the five business segments or divisions and other members of the Group's corporate management team). The remuneration of these personnel is determined by the Compensation Committee having regard to the performance of individuals and market trends.

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 $** | **2011 31 Dec $** | 2010 30 Nov $ |
|---|---|---|---|---|
| Kristian Siem | **200,000** | **–** | **–**[a] | – |
| Sir Peter Mason KBE FREng | **125,000** | **–** | **177,361**[b] | 200,000 |
| Mel Fitzgerald | **105,000** | **6,000** | **–**[c] | – |
| Dod Fraser | **105,000** | **6,000** | **122,083**[d] | 105,000 |
| Robert Long | **105,000** | **–** | **105,000** | – |
| Arild Schultz | **105,000** | **–** | **105,000** | – |
| Allen Stevens | **105,000** | **–** | **105,000** | – |
| Trond Westlie | **105,000** | **14,000** | **130,928**[d] | 113,000 |
| Tom Ehret | **–** | **–** | **–** | 125,000 |
| Thorleif Enger | **–** | **–** | **–** | 105,000 |
| Ron Henderson | **–** | **–** | **–** | 111,000 |
| J. Frithjof Skouverøe | **–** | **–** | **–** | 111,000 |

(a) Mr Siem's fee is included within payments to Siem Industries Inc. as detailed in 'Directors' interests' overleaf.

(b) Sir Peter's fee was $200,000 per annum up to the 2011 AGM and $125,000 per annum thereafter. The fee disclosed above represents total fees relating to the period.

(c) 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 was $0.8 million 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 $0.9 million. Mr Fitzgerald resigned from the Board of Directors of Subsea 7 S.A. on 5 March 2012.

(d) Sir Peter, Mr Fraser and Mr Westlie received a pro rata fee for the 13 months served.

Share options outstanding and shareholdings at the end of the period were as follows:

### Share options

| Name | Date of Grant | Number of Options | Exercise Price[b] | Date of expiry |
|---|---|---|---|---|
| Kristian Siem | | Nil | | |
| Sir Peter Mason KBE FREng | 21 Nov 2006 | 5,000 | $19.45 | 20 Nov 2016 |
| Mel Fitzgerald[a] | | Nil | | |
| Dod Fraser | | Nil | | |
| Robert Long | | Nil | | |
| Arild Schultz | | Nil | | |
| Allen Stevens | | Nil | | |
| Trond Westlie | 12 Nov 2004 | 5,000 | $5.02 | 11 Nov 2014 |
| | 22 Nov 2005 | 5,000 | $10.32 | 21 Nov 2015 |
| | 21 Nov 2006 | 5,000 | $19.45 | 20 Nov 2016 |

(a) On 5 March 2012, the Group announced that Mel Fitzgerald had resigned from the Board of Directors of Subsea 7 S.A. for personal reasons, with immediate effect.

(b) In 2012, the exercise prices of outstanding share options were converted from US Dollars to NOK.

### Shareholdings

| Name | Total Owned Shares |
|---|---|
| Kristian Siem[a] | Nil |
| Sir Peter Mason KBE FREng | 10,000 |
| Mel Fitzgerald[b] | 156,878 |
| Dod Fraser | 2,000 |
| Robert Long | Nil |
| Arild Schultz | 500,000 |
| Allen Stevens | 10,650 |
| Trond Westlie | Nil |

(a) As at 15 March 2012, Siem Industries Inc. which is a company controlled through trusts where certain members of Mr. Siem's family are potential beneficiaries, owned 69,731,931 shares, representing 19.8% of issued shares.

(b) On 5 March 2012, the Group announced that Mel Fitzgerald had resigned from the Board of Directors of Subsea 7 S.A. for personal reasons, with immediate effect.

### Key management

The remuneration of key management personnel, excluding the Non-Executive Directors, during the year was as follows:

| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Salaries and other short-term employee benefits | **6.9** | 12.6 |
| Termination benefits | **–** | 2.0 |
| Share based payment | **4.3** | 6.5 |
| Post-employment benefits | **0.5** | 0.5 |
| **Total** | **11.7** | 21.6 |

Included in the table above, the compensation of the Chief Executive Officer (CEO) for the period was $2.8 million (2010: $2.0 million) and included base salary, bonus, benefits-in-kind and pension contributions. This amount excludes the IFRS 2 change for any incentive plans the CEO is a member of.

Share options, performance shares and restricted shares outstanding and shareholdings at the end of the period were as follows:

### Share options

| Name | Date of Grant | Number of Options | Exercise Price[a] | Date of expiry |
|---|---|---|---|---|
| Jean Cahuzac | 13 Apr 2008 | 100,000 | $24.20 | 13 April 2018 |
| Keith Tipson | 22 Nov 2005 | 22,000 | $10.32 | 21 Nov 2015 |
| | 21 Nov 2006 | 24,500 | $19.45 | 20 Nov 2016 |
| | 12 Mar 2008 | 15,000 | $22.52 | 11 Mar 2018 |

(b) In 2012, the exercise prices of outstanding share options were converted from US Dollars to NOK.

### Shares, performance shares and restricted shares

| Name | Total Performance Shares[a] | Total Owned Shares | Total Restricted Shares[a] |
|---|---|---|---|
| Jean Cahuzac | 105,000 | 74,858 | Nil |
| Simon Crowe | 59,000 | 17,703 | Nil |
| John Evans | Nil | 1,141 | 136,674 |
| Graeme Murray | Nil | 1,112 | 28,399 |
| Keith Tipson | 42,000 | 13,836 | Nil |
| Steve Wisely | Nil | Nil | 96,559 |

(a) Total performance shares and restricted shares held represent the maximum award assuming all conditions are met.

## 36. Related party transactions *continued*

### Transactions with key management personnel

During the period, key management personnel were awarded the rights to 60,000 shares (2010: 465,000) under the 2009 Long-Term Incentive Plan. Refer to Note 37 'Share based payments' for details.

### Loans and trade receivables with related parties

As disclosed in Note 17 'Interest in associates and joint ventures', the Group has provided loans to associates and joint venture entities at rates comparable to the average commercial rate of interest amounting to $26.0 million (2010: $43.2 million) and has trade receivables of $24.8 million (2010: $22.5 million).

As disclosed in Note 30 'Other non-current liabilities' the Group has received a loan from non-controlling interest Havila Shipping PTE. LTD. to part fund the purchase of the *Seven Havila.* Interest on the loan is based on six month NIBOR and is payable six months in arrears. The loan is repayable on maturity of the Seven Havila Loan, but no later than 28 February 2021.

There were no loans to key management personnel in 2011 (2010: Nil).

Employee loans consisting primarily of salary and travel advances to employees in furtherance of the Group's business amounted to $0.9 million (2010: $2.3 million).

### Trading transactions

During the year, 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 and are made only if such terms can be substantiated.

### Directors' interests

Transactions with companies which are related parties due to being companies in which a Board member has an interest, were as follows:

Kristian Siem is the Chairman of Siem Industries Inc. Payments to Siem Industries Inc. in relation to the services of Mr Siem, the provision of an office in the Cayman Islands, and other services totalling $0.4 million (2010: $Nil) were made during the period.

Siem Offshore Rederi AS, Siem AHTS Pool AS and Siem Offshore Services AS are all subsidiaries of Siem Offshore Inc., where Kristian Siem is Chairman. Purchases from these companies relating to vessel charter costs totalling $21.4 million were made during the period (2010: $Nil). As at 31 December 2011 the Group had an outstanding balance due to these companies of $1.4 million (2010: $Nil).

In addition, during the period the Group provided VERIPOS services to Siem Offshore AS and Siem Meling Offshore DA totalling $0.4 million (2010: $Nil).

DSND Bygg AS is ultimately controlled by Siem Industries Inc. Purchases from DSND Bygg AS in relation to the rental of office accommodation totalling $0.6 million were made during the period (2010: $Nil), offset by receipts for office management services of $0.2 million (2010: $Nil).

Trond Westlie is the CFO of A.P. Møller-Maersk A/S. During the period the Group recognised revenue of $17.5 million from subsidiaries of A.P. Møller-Maersk A/S (2010: $28.7 million).

Purchases from BAE Systems, where Sir Peter Mason is a board member, relating to logistics costs totalling $0.4 million were made during the period (2010: $Nil).

Purchases from Spie S.A., where Sir Peter Mason is a board member, totalling $0.2 million were made during the period (2010: $Nil). As at 31 December 2011 the Group had an outstanding balance due to these companies of $0.2 million (2010: $Nil).

#### Relationship Agreement

A Relationship Agreement exists between Subsea 7 Inc., Subsea 7 S.A. and Siem Industries Inc. which provides for certain relationship arrangements between the parties, including:

- the nomination of up to two directors to the Board by Siem Industries Inc. provided the shareholding of Siem Industries Inc. meets certain threshold levels; and
- restrictions on the number of Subsea 7 S.A. shares which can be acquired or sold by Siem industries Inc.

## 37. Share based payments

The Group operates several share based payment schemes, both cash settled and equity settled.

The following table summarises the compensation expense recognised during the year:

| For the period (in $ millions) | 2011 31 Dec | 2010 30 Nov |
|---|---|---|
| **Expense arising from equity-settled share based payment transactions:** | | |
| 2003 Plan | **1.2** | 2.2 |
| 2009 Long-Term Incentive Plan | **3.0** | 1.9 |
| Restricted Share Plan | **0.1** | 0.5 |
| Subsea 7 Inc. restricted stock award plan | **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:** | | |
| 2010 Executive Deferred Incentive Scheme | **0.5** | 0.1 |
| 2009 Executive Deferred Incentive Scheme | **0.4** | 0.9 |
| 2010 Long-Term Incentive Plan – cash plan | **0.9** | 0.6 |
| Special Incentive Plan 2009 | **3.3** | 3.0 |
| **Total** | **20.7** | 9.2 |

Terms of most significant schemes are detailed on the following pages:

### 2003 Plan

The Group operates a share option plan which was approved in April 2003 ('2003 Plan'). This plan includes an additional option plan for key Directors and employees resident in France as a sub-plan (the 'French Plan'), and additional options which are granted under the Senior Management Incentive Plan (SMIP). A Compensation Committee appointed by the Board administers these plans. Options are awarded at the discretion of the Compensation Committee to directors and key employees.

Under the 2003 Plan options of up to but not exceeding 6.3 million common shares can be granted. Following shareholder approval at the Extraordinary General Meeting held on 18 December 2008, the 2003 Plan was expanded to cover up to 8.7 million shares. This plan replaced the previous plan (the '1993 Plan'). Any options granted under the French Plan are included as part of this limit. Other than options granted under the SMIP, options under the 2003 Plan (and therefore also under the French Plan) may be granted, 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. Such options vest 25% on the first anniversary of the grant date, with an additional 25% vesting on each subsequent anniversary. The cost of these non-performance share options is therefore recognised using the graded vesting attribution method. Share option exercises are satisfied by either issuing new shares or 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.

In the period no common share options were granted (2010: no common share options), and no options were granted under the French Plan (2010: no common share options).

### 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 is an essential component of the Company's compensation policy, and was designed to place the Company on a par with competitors in terms of recruitment and retention abilities. The 2009 LTIP provides for whole share awards, which vest after at least three years, based on continued service and the performance conditions set out below:

Performance conditions are based on relative Total Shareholder Return ('TSR') against a specified comparator group of 10 companies determined over a three-year period. The Company would have to deliver TSR above the median for any awards to vest. At the median level, only 30% of the maximum award would vest. The maximum award would only be achieved if the Company achieved top decile TSR (i.e. if, when added to the comparator group, the Company was first in terms of TSR performance). In addition, individual award caps have been introduced. 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 his or her annual base salary as of the first day of said year. Additionally, a holding requirement for senior executives has been introduced. Senior executives must hold 50% of all awards that vest until they have built up a shareholding of 1.5 x salary, which must be maintained.

The 2009 LTIP currently covers approximately 120 senior managers and key employees. Grants are determined by the Company's Compensation Committee, which is responsible for operating and administering the plan. 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.

In 2011, awards were made over a further 537,500 performance shares (2010: 970,000), subject to the 2009 LTIP's performance conditions, in conjunction with which 331,000 shares (2010: 583,000) were transferred to an Employee Benefit Trust from own shares previously held indirectly by Subsea 7 Investing (Bermuda) Limited.

## 37. Share based payments *continued*

The IFRS 2 fair value of each share granted under the 2009 LTIP is estimated as of the grant date using the Monte Carlo pricing model with weighted average assumptions as follows:

| For the period | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Weighted average fair value at grant date (in $) | **11.65** | 10.46 |
| Weighted average share price (in $) | **22.40** | 19.83 |
| Expected volatility | **41%** | 51.4% |
| Expected life | **5 years** | 3 years |
| Risk free rate | **1.8%** | 2.7% |
| Expected dividends (in $) | **0.00** | 0.22 |

The expected life of the share is the vesting period on which the shares will be issued after the vesting period is complete, provided the performance criteria is met. The expected volatility over the expected term is estimated from the Company's historical volatility. For the 2011 award the expected dividend took into account the expected dividends over the three-year vesting period assuming growth of 0% (2010: 5%) over the dividend yield of 0% (2010: 2.6%).

### Restricted share plan

In March 2008, the Board approved and adopted a restricted share plan to provide a retention incentive to selected senior executives. In April 2008, 65,000 restricted shares were issued to selected senior executives as part of the retention incentive of the plan. These shares had a fair value of $22.23, representing the market price on the date of issue. No further restricted shares have been issued under the Restricted Share Plan and these shares vested during the period.

### Special Incentive Plan 2009

Subsequent to 30 November 2009, but prior to the adoption of the 2009 Long-Term Incentive Plan described above, and as an interim measure, the Company put in place the Special Incentive Plan 2009 ('SIP 2009'), a cash-settled incentive plan designed to provide awards to selected executives and key employees, thus further aligning their interests with those of shareholders. Awards under the SIP 2009 are in the form of a cash bonus, payable in April 2012, of between zero and twelve months' base salary, dependent on the Company's average share price as quoted on the Oslo Børs between 1 January 2012 and 31 March 2012. If the average share price over that period is $8.75 or less, no cash bonus will be payable. If the average share price over that period is $35.00 or more, a cash bonus equal to twelve months' base salary will be payable. If the average share price over that period is between $8.75 and $35.00, a cash bonus equal to between zero and twelve months' base salary will be payable, calculated on a straight-line basis pro rata to the share price. Awards under the SIP 2009 are capped at the equivalent of twelve months' base salary. No other performance criteria apply.

### Subsea 7 Inc. schemes

As part of the Combination, the Group replaced the share options and restricted stock units issued by Subsea 7 Inc. This amounted to 1.8 million restricted shares and 0.2 million share options. 88% of the share options had already vested on acquisition with the remainder vesting by September 2012.

### 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 stock 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 and IFRS 2, a proportion of this fair value was treated as consideration for the Combination (Note 13 'Business 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 will normally vest in June 2012, and the remaining 40% of the awards will normally vest in June 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 ordinary shares in the Company. US participants who receive awards in the form of restricted stock are required to waive voting and dividend rights during the restricted period as a term of the award.

At 31 December 2011, 264,726 restricted shares had vested.

### Share options

Option activity, is as follows:

| For the period | **Number of options 2011 31 Dec** | **Weighted average exercise price in $ 2011 31 Dec[(a)]** | Number of options 2010 30 Nov | Weighted average exercise price in $ 2010 30 Nov |
|---|---|---|---|---|
| Outstanding at period beginning | **2,767,841** | **15.00** | 3,777,494 | 13.28 |
| Replaced on Combination with Subsea 7 Inc. | **176,037** | **9.77** | – | – |
| Reinstatement of lapsed options | **86,200** | **6.83** | – | – |
| Exercised | **(663,375)** | **10.04** | (732,168) | 6.57 |
| Forfeited | **(15,075)** | **17.90** | (201,061) | 13.41 |
| Expired | **(64,115)** | **10.56** | (76,424) | 10.56 |
| Outstanding at period end | **2,287,513** | **15.82** | 2,767,841 | 15.00 |
| Exercisable at the end of the period | **2,091,824** | **15.17** | 2,349,093 | 13.59 |

(a) In 2012, the exercise prices of 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 $22.39 (2010: $18.85).

The following table summarises information about share options outstanding as at 31 December 2011:

| Common shares (range of exercise prices) | Options outstanding | | |
|---|---|---|---|
| | Options outstanding | Weighted average remaining contractual life (in years) | Weighted average exercise price (in $)[a] |
| $17.01 – $26.16 | **1,398,345** | **5.63** | **21.31** |
| $10.01 – $17.00 | **367,288** | **3.96** | **11.13** |
| $3.01 – $10.00 | **314,230** | **2.99** | **5.99** |
| $1.19 – $3.00 | **207,650** | **1.83** | **2.00** |
| **Total** | **2,287,513** | **4.65** | **15.82** |

(a) In 2012, the exercise prices of outstanding share options were converted from US Dollars to NOK.

### Recognised cash-settled share based payment liability

The carrying amount of the liability relating to the cash-settled share based payment as at 31 December 2011 is $9.9m (2010: $4.9m). No cash awards vested during the period ended 31 December 2011 (2010: Nil).

## 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 period was $46.4 million (2010: $20.4 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. Plan assets of the funded schemes primarily comprise marketable securities.

The amount included in the Consolidated Balance Sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov |
|---|---|---|
| Present value of defined benefit obligations | **57.4** | 52.6 |
| Fair value of plan assets in defined scheme | **(41.3)** | (36.6) |
| **Deficit in funded defined benefit schemes** | **16.1** | 16.0 |
| Present value of unfunded defined benefit obligation | **12.3** | 11.3 |
| Past service cost not yet recognised in Consolidated Balance Sheet | **0.7** | 1.5 |
| **Net liability recognised in the Consolidated Balance Sheet** | **29.1** | 28.8 |

Amounts recognised in the Consolidated Income Statement within operating expenses and administrative expenses in respect of these defined benefit schemes are as follows:

### 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)** |
| Norwegian national insurance and other expenses | **0.1** | **–** | **–** | **0.1** |
| **Total** | **1.2** | **0.5** | **0.8** | **2.5** |

### Year ended 30 November 2010

| (in $ millions) | Norway | United Kingdom | France | Total |
|---|---|---|---|---|
| Service cost | 0.8 | 0.3 | 0.6 | 1.7 |
| Interest cost | 1.0 | 1.3 | 0.4 | 2.7 |
| Expected return on plan assets | (1.1) | (1.2) | – | (2.3) |
| Past service cost | (1.9) | – | (0.8) | (2.7) |
| Norwegian national insurance and other expenses | 0.1 | – | – | 0.1 |
| Total | (1.1) | 0.4 | 0.2 | (0.5) |

The estimated amounts of contributions expected to be paid to schemes during period 2012 is $1.5 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 is $44.7 million (2010: $43.7 million), after tax effects of $12.8 million (2010: $12.1 million).

The actual return on scheme assets was $2.2 million (2010: $0.9 million).

## 38. Retirement benefit obligations *continued*

The following table provides a reconciliation of the retirement benefit obligations:

| | Norway | | United Kingdom | | France | | Total | |
|---|---|---|---|---|---|---|---|---|
| For the period (in $ millions) | **2011 31 Dec** | 2010 30 Nov | **2011 31 Dec** | 2010 30 Nov | **2011 31 Dec** | 2010 30 Nov | **2011 31 Dec** | 2010 30 Nov |
| Change in present value of defined benefit obligation: | | | | | | | | |
| At period beginning | **28.8** | 26.4 | **24.4** | 25.2 | **10.7** | 10.0 | **63.9** | 61.6 |
| Service costs | **1.1** | 0.8 | **0.3** | 0.3 | **1.0** | 0.6 | **2.4** | 1.7 |
| Interest cost | **1.1** | 1.0 | **1.4** | 1.3 | **0.5** | 0.5 | **3.0** | 2.8 |
| Actuarial losses/(gains) | **(2.7)** | 4.2 | **3.1** | (0.2) | **(0.2)** | 1.8 | **0.2** | 5.8 |
| Benefits paid | **(1.2)** | (0.8) | **(0.6)** | (0.8) | **(0.1)** | (0.8) | **(1.9)** | (2.4) |
| Norwegian national insurance | **0.1** | 0.5 | **–** | – | **–** | – | **0.1** | 0.5 |
| Other | **0.8** | (0.8) | **0.1** | – | **–** | – | **0.9** | (0.8) |
| Exchange differences | **1.5** | (2.5) | **(0.4)** | (1.4) | **–** | (1.4) | **1.1** | (5.3) |
| At period end | **29.5** | 28.8 | **28.3** | 24.4 | **11.9** | 10.7 | **69.7** | 63.9 |
| Change in fair value of plan assets: | | | | | | | | |
| At period beginning | **19.4** | 20.7 | **17.2** | 16.2 | **–** | – | **36.6** | 36.9 |
| Estimated return on plan assets | **1.1** | 1.1 | **1.0** | 1.2 | **–** | – | **2.1** | 2.3 |
| Actuarial (losses)/gains | **(0.1)** | (1.9) | **–** | 0.5 | **–** | – | **(0.1)** | (1.4) |
| Members' contribution | **0.4** | 1.4 | **0.1** | 1.0 | **–** | – | **0.5** | 2.4 |
| Company contribution | **–** | – | **1.2** | | **–** | – | **1.2** | – |
| Benefits paid | **(1.0)** | (0.7) | **(0.6)** | (0.8) | **–** | – | **(1.6)** | (1.5) |
| Other | **1.7** | 0.7 | **–** | – | **–** | – | **1.7** | 0.7 |
| Exchange differences | **0.8** | (1.9) | **0.1** | (0.9) | **–** | – | **0.9** | (2.8) |
| At period end | **22.3** | 19.4 | **19.0** | 17.2 | **–** | – | **41.3** | 36.6 |
| Funded status | **(7.2)** | (9.4) | **(9.3)** | (7.2) | **(11.9)** | (10.7) | **(28.4)** | (27.3) |
| Past service costs not yet recognised in Consolidated Balance Sheet | | | | | | | **(0.7)** | (1.5) |
| **Overall status** | | | | | | | **(29.1)** | (28.8) |

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 $1.0 million (2010: $0.6 million). The Vita pension plan of Norway is in a funded position of $0.3 million.

The expected return on scheme 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.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

### Period ended 31 December 2011

| (in %) | **Norway** | **United Kingdom** | **France** | **Total – weighted average** |
|---|---|---|---|---|
| Key assumptions used: | | | | |
| Pension increase | **0.7 – 3.8** | **2.8** | **–** | **2.7** |
| Discount rate | **3.3** | **4.7** | **4.5** | **4.1** |
| Expected return on scheme assets | **4.8** | **6.1** | **–** | **4.5** |
| Rate of compensation increase | **4.0** | **4.6** | **4.5** | **4.3** |

### Year ended 30 November 2010

| (in %) | Norway | United Kingdom | France | Total – weighted average |
|---|---|---|---|---|
| Key assumptions used: | | | | |
| Pension increase | 0.5 – 3.8 | 3.1 | – | 2.8 |
| Discount rate | 3.2 | 5.5 | 4.0 | 4.2 |
| Expected return on scheme assets | 4.6 | 7.7 | – | 6.1 |
| Rate of compensation increase | 4.0 | 4.9 | 4.5 | 4.4 |

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 scheme retirement age was as follows:

| | | | As at balance sheet date | | 20 years post balance sheet date | |
|---|---|---|---|---|---|---|
| Retirement Benefit Scheme | Retirement Age | Sex | **2011 31 Dec** | 2010 30 Nov | **2011 31 Dec** | 2010 30 Nov |
| Norway Sailor scheme | 60 years | Male | **23.4** | 23.5 | **25.7** | 25.5 |
| | | Female | **26.9** | 26.3 | **29.0** | 28.5 |
| Norway Office scheme | 67 years | Male | **17.2** | 17.7 | **19.1** | 19.5 |
| | | Female | **20.2** | 20.1 | **22.2** | 22.2 |
| United Kingdom scheme | 65 years | Male | **21.1** | 21.0 | **23.0** | 22.9 |
| | | Female | **23.7** | 23.6 | **25.6** | 25.5 |
| France scheme | 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 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** |

### As at 30 November 2010

| (in $ millions) | Norway | United Kingdom | Total |
|---|---|---|---|
| Equity instruments | 2.4 | 4.6 | 7.0 |
| Bonds | 9.3 | 7.7 | 17.0 |
| Real estate | 3.7 | – | 3.7 |
| Derivative investments | 4.1 | 4.6 | 8.7 |
| Other assets | – | 0.2 | 0.2 |
| Total | 19.5 | 17.1 | 36.6 |

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) | **2011 31 Dec** | 2010 30 Nov | 2009 30 Nov | 2008 30 Nov | 2007 30 Nov |
|---|---|---|---|---|---|
| Present value of defined benefit obligations | **69.7** | 63.9 | 61.6 | 42.8 | 110.2 |
| Fair value of scheme assets | **(41.3)** | (36.6) | (36.9) | (24.8) | (62.2) |
| **Deficit in the scheme** | **28.4** | 27.3 | 24.7 | 18.0 | 48.0 |
| | | | | | |
| Experience adjustments on scheme liabilities | **(0.2)** | (5.8) | (10.0) | 1.3 | (4.8) |
| Experience adjustments on scheme assets | **(0.1)** | (1.4) | 7.2 | (8.7) | (0.1) |
| **Net experience adjustment** | **(0.3)** | (7.2) | (2.8) | (7.4) | (4.9) |

## 39. Deferred revenue

Revenue deferred relating to the Group's obligations are as indicated:

| As at (in $ millions) | **2011 31 Dec** | 2010 30 Nov Restated[(a)] |
|---|---|---|
| Advances received from clients | **210.7** | 19.4 |
| **Total** | **210.7** | 19.4 |

(a) See Note 3 'Significant accounting policies' for details of restatement.

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 (in $ millions) | Notes | **2011 31 Dec** | 2010 30 Nov Restated[(a)] |
|---|---|---|---|
| **Cash flow from operating activities:** | | | |
| Net income | | **450.7** | 313.0 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 16 | **307.6** | 116.2 |
| Net impairment/(reversal of impairment) of property, plant and equipment | | **25.4** | (1.3) |
| Amortisation of intangible assets | 15 | **26.4** | 1.6 |
| Net impairment of intangible assets | | **–** | 5.1 |
| Share in net income of associates and joint ventures | 17 | **(103.7)** | (74.8) |
| Mobilisation costs | | **3.4** | 1.6 |
| Share based payments and retirement obligations | | **15.7** | 9.5 |
| Finance income | | **(20.0)** | (9.8) |
| Finance costs | | **40.4** | 28.7 |
| Inventories written back/(written off) | | **0.2** | (0.5) |
| Taxation | | **176.3** | 145.7 |
| Losses on disposal of property, plant and equipment | | **2.9** | – |
| Foreign exchange gain | | **(11.8)** | (47.3) |
| | | **913.5** | 487.7 |
| **Changes in operating assets and liabilities, net of acquisitions:** | | | |
| Decrease/(increase) in inventories | | **2.2** | (1.6) |
| Increase in trade and other receivables | | **(450.6)** | (137.2) |
| Increase/(decrease) in trade and other liabilities | | **345.7** | (63.2) |
| | | **(102.7)** | (202.0) |
| Income taxes paid | | **(231.4)** | (137.4) |
| **Net cash generated from operating activities** | | **579.4** | 148.3 |

(a) Note 3 'Significant accounting policies' for details of restatement

## 41. Post balance sheet events

### Sale of NKT Flexibles

On 20 September 2011, the Boards of NKT Holding A/S and Subsea 7 S.A. announced that they were to carry out a review of strategic alternatives for the future development of NKT Flexibles which has been operated as a joint venture between NKT Holding A/S (51%) and Subsea 7 S.A. (49%) since 1999.

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 (NOV) for a total consideration of DKK 3.8 billion. The transaction is subject to customary closing conditions, including approval from the relevant competition authorities, and is expected to close during the first half of 2012.

The transaction will lead to a gain on disposal which is expected to be recognised in 2012.

The joint venture did not meet the criteria in IFRS 5 to be classified as held for sale at 31 December 2011 but will be classified as held for sale from 3 February 2012. The joint venture is presented within the Corporate segment.

### SEC Deregistration

On 1 March 2012, the Group announced its intention to make the necessary filings with the Securities and Exchange Commission (SEC) on 8 March 2012 to voluntarily deregister and terminate its reporting obligations under the Securities Exchange Act of 1934.

On 8 March 2012, said filings were made and the Company's SEC reporting obligations were suspended, therefore, the Company will not be required to file an Annual Report on Form 20-F for the period which ended on 31 December 2011. Deregistration is expected to be final and effective on 7 June 2012.

### Board Changes

On 5 March 2012, the Group announced that Mel Fitzgerald had resigned from the Board of Directors of Subsea 7 S.A. for personal reasons, with immediate effect.

### Dividend

Based on the Group's strong performance, the strength of the balance sheet and confidence in the business, the Board recommends shareholders approve a special dividend of $0.60 per share.

### Share buyback

On 16 March 2012, the Group announced a share buyback programme of up to $200 million. The programme has been approved pursuant to the standing authorisation granted to the Board at the Annual General Meeting held on 27 May 2011, which allows for the purchase of up to a maximum of 10% of the Group's issued share capital, net of purchases already made. It is expected that this buyback programme will be carried out over the next twelve months.

Any such repurchases of own shares will be made through open market repurchases on the Oslo Børs, pursuant to certain conditions and provided such purchases are in conformity with Article 49-2 of the Luxembourg Company Law and the EU Commission Regulation 2273/2003 on exemptions for buyback programmes and stabilisation of financial instruments. The repurchased shares will either be cancelled or held as treasury shares to meet obligations arising under notes convertible into shares of the Group or any employee share option schemes.

## Additional Information

### Special Note Regarding Forward-Looking Statements

Certain statements made in this Report and some of the documents incorporated by reference 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', '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; (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.

# Additional Information

## Adjusted EBITDA and Adjusted EBITDA margin

The Group calculates adjusted earnings before interest, income taxation, depreciation and amortisation ('Adjusted EBITDA') from continuing operations as net income from continuing operations plus finance costs, other gains and losses, taxation, depreciation and amortisation and adjusted to exclude investment income and impairment charges. Adjusted EBITDA margin from continuing operations is defined as Adjusted EBITDA divided by revenue from continuing operations. Adjusted EBITDA for discontinued operations is calculated as per the methodology outlined above. Adjusted EBITDA for total operations is the total of continuing operations and discontinued operations.

Adjusted EBITDA is a non-IFRS measure that represents EBITDA 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 additional specific items excluded from Adjusted EBITDA are other gains and losses and impairment of property, plant and equipment and intangibles. These items are excluded from Adjusted EBITDA because they are individually or collectively material items that are not considered representative of the performance of the businesses during the periods presented. Other gains and losses principally relate to disposals of property, plant and equipment and net foreign exchange gains or losses. Impairments of property, plant and equipment represent the excess of the assets' carrying amount over the amount that is expected to be recovered from their use in the future.

The Adjusted EBITDA measures and Adjusted EBITDA margins 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 profit 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 from continuing operations are important indicators of the operational strength and the performance of the business. These non-IFRS measures provide management with a meaningful comparison amongst its various Territories, as they eliminate the effects of financing and depreciation. Management believes that the presentation of Adjusted EBITDA from continuing operations 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 from continuing operations 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 from continuing operations as presented by the Group may not be comparable to similarly titled measures reported by other companies.

### Reconciliation to net operating income:

| | **31 December 2011** | | | 30 November 2010 | | |
|---|---|---|---|---|---|---|
| For the period (in $ millions) | **Continuing** | **Discontinued** | **Total Operations** | Continuing | Discontinued | Total Operations |
| Net operating income | **640.5** | **–** | **640.5** | 436.1 | 59.7 | 495.8 |
| Depreciation and amortisation | **337.4** | **–** | **337.4** | 119.4 | – | 119.4 |
| Impairments | **25.4** | **–** | **25.4** | 3.8 | – | 3.8 |
| Adjusted EBITDA | **1,003.3** | **–** | **1,003.3** | 559.3 | 59.7 | 619.0 |
| Revenue | **5,476.5** | **–** | **5,476.5** | 2,369.0 | 83.4 | 2,452.4 |
| Adjusted EBITDA % | **18.3%** | **–** | **18.3%** | 23.6% | 71.6% | 25.2% |

### Reconciliation to net income:

| | **31 December 2011** | | | 30 November 2010 | | |
|---|---|---|---|---|---|---|
| For the period (in $ millions) | **Continuing** | **Discontinued** | **Total Operations** | Continuing | Discontinued | Total Operations |
| Net income | **450.7** | **–** | **450.7** | 268.4 | 44.6 | 313.0 |
| Depreciation and amortisation | **337.4** | **–** | **337.4** | 119.4 | – | 119.4 |
| Impairments | **25.4** | **–** | **25.4** | 3.8 | – | 3.8 |
| Investment income | **(20.0)** | **–** | **(20.0)** | (9.8) | – | (9.8) |
| Other losses/(gains) | **(6.9)** | **–** | **(6.9)** | 18.0 | 0.2 | 18.2 |
| Finance costs | **40.4** | **–** | **40.4** | 28.7 | – | 28.7 |
| Taxation | **176.3** | **–** | **176.3** | 130.8 | 14.9 | 145.7 |
| Adjusted EBITDA | **1,003.3** | **–** | **1,003.3** | 559.3 | 59.7 | 619.0 |
| Revenue | **5,476.5** | **–** | **5,476.5** | 2,369.0 | 83.4 | 2,452.4 |
| Adjusted EBITDA % | **18.3%** | **–** | **18.3%** | 23.6% | 71.6% | 25.2% |

## Investor Relations and press enquiries

Shareholders, securities analysts, portfolio managers, representatives of financial institutions and the press may contact:

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Investor Relations Director
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### Financial information

Copies of Stock Exchange announcements (including Stock Exchange announcements, quarterly and semi-annually earnings releases, Consolidated and Unconsolidated Annual Report and Financial Statements for Subsea 7 S.A.) are available on the Group's website www.subsea7.com.

Any shareholder requiring a printed copy of the Annual Report or the Company Financial Statements for Subsea 7 S.A. can request these via the website www.subsea7.com.

### Stock listings

Common shares – Traded on the Oslo Børs under the symbol SUBC

DnB NOR Bank ASA
Standen 21
NO-0021 Oslo
Norway
T: +47 22 48 12 17
F: +47 22 94 90 20

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 (1) 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

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 2012 on the following dates:

| | |
|---|---|
| Q1 2012 Results | 11 May 2012 |
| Q2 & H1 2012 Results | 9 August 2012 |
| Q3 2012 Results | 19 November 2012 |
| Q4 & FY 2012 Results | March 2013 |

## 2012 Annual General Meeting

22 June 2012
412F, route d'Esch
L-2086 Luxembourg

## Registered Office

412F, route d'Esch
L-2086 Luxembourg

## Website

www.subsea7.com

# Additional Information

## Table of Definitions

### Glossary of terms

| | |
|---|---|
| **$1 billion facility** | The Subsea 7 S.A. $1 billion multi-currency revolving credit and guarantee facility, executed on 10 August 2010. |
| **$500 million 2.25% Convertible Loan Note 2013** | Loan notes issued in 2006, with an interest rate of 2.25%, paid semi-annually in arrears. These loan notes will be repaid on 11 October 2013 at par unless previously redeemed or converted into common shares. The conversion price (initially $24.05) is adjusted in accordance with its terms and conditions including payment of dividends. |
| **$275 million 3.5% Convertible Loan Note 2014** | Loan notes acquired on the Combination with Subsea 7 Inc, with an interest rate of 3.5%, paid semi-annually in arrears. These loan notes will be repaid on 13 October 2014 at par unless previously redeemed or converted into common shares. The conversion price ($16.88 on Combination) is adjusted in accordance with its terms and conditions. |
| **Acergy S.A.** | The legacy company prior to the Combination which completed following the close of business on the Oslo Børs on 7 January 2011. |
| **Adjusted EBITDA** | Adjusted earnings before interest, income taxation, depreciation and amortisation ('Adjusted EBITDA') from continuing operations is calculated as net income from continuing operations plus finance costs, other gains and losses, taxation, depreciation and amortisation and adjusted to exclude investment income and impairment of property, plant and equipment and intangibles. Adjusted EBITDA margin from continuing operations is defined as Adjusted EBITDA divided by revenue from continuing operations. Adjusted EBITDA for discontinued operations is calculated as per the methodology outlined above. Adjusted EBITDA for total operations is the total of continuing operations and discontinued operations. Adjusted EBITDA is a non-IFRS measure that represents EBITDA before additional specific items that are considered to hinder comparison of the Group's performance either year-on-year or with other businesses. The additional specific items excluded from adjusted EBITDA are other gains and losses and impairment of property, plant and equipment and intangibles. These items are excluded from Adjusted EBITDA because they are individually or collectively material items that are not considered representative of the performance of the businesses during the periods presented. Other gains and losses principally relate to disposals of property, plant and equipment and net foreign exchange gains (losses), and impairments of property, plant and equipment represent the excess of the assets' carrying amount that is expected to be recovered from their use in the future. |
| **ADR** | American Depositary Receipt (one Subsea 7 S.A. ADR represents one Subsea 7 S.A. ADS). |
| **ADS** | American Depositary Shares of Subsea 7 S.A. |
| **AFGoM** | Africa & Gulf of Mexico Territory |
| **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 relating to discontinued operations and backlog awarded to associates/joint ventures are excluded from backlog figures, unless otherwise stated. |
| **Board or Board of Directors** | The Board of Directors of Subsea 7 S.A. |
| **Bundle-lay** | 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. |
| **Cash-Generating Unit or CGU** | These are the separable business units on which impairment reviews are carried out. |
| **Conventional or Conventional Field Development** | 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 Acergy Shares to 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. (formerly Acergy S.A.) |
| **Conventional Refurbishment** | The maintenance and refurbishment of Conventional topside facilities. |
| **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. |
| **DP** | Dynamic Positioning |

# Additional Information

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| **DP3** | Class 3 Dynamic Positioning. (DP3 is the highest equipment class for dynamic positioning and requires vessels to maintain automatic and manual position and heading control under specified maximum environmental conditions, during and following any single fault including loss of a compartment due to fire or flood. It further requires at least two independent computer systems with a separate backup system separated by A60 class division.) |
| **EBITDA** | Earnings before interest, taxes, depreciation and amortisation. |
| **EBT** | Employee benefit trust. |
| **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. |
| **Executive Management Team** | The Executive Management Team of Subsea 7 S.A. comprises of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Executive Vice President – Human Resources, General Counsel and Executive Vice President – Commercial. |
| **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 the 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. |
| **Group** | Subsea 7 S.A. and its subsidiaries. |
| **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 flow line. |
| **HMRC** | Her Majesty's Revenue & Customs, the principal tax authority in the United Kingdom. |
| **ICMS** | The Brazilian equivalent of value added tax (VAT) |
| **IFRS** | The International Financial Reporting Standards as adopted by the European Union. |
| **i-Tech** | A division of Subsea 7 that provides remotely operated vehicles and remote intervention tooling services to the global exploration and production industry. |
| **J-lay** | A pipelay method consisting of welding single lengths of steel pipe onboard 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 or 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. |
| **LTIP** | Long-Term Incentive Plan. |
| **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 ordinary shares in issue at 31 December 2011 (351,793,731 shares) at the closing share price on the Oslo Bors on 30 December 2011 of NOK111.0 |
| **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** | A 49% investment in NigerStar 7 Limited, a joint venture with Nigerdock. |
| **NKT Flexibles** | NKT Flexibles I/S. |
| **NOK** | Norwegian Krone, the lawful currency of Norway. |
| **NOK 977.5 million facility** | The Subsea 7 S.A NOK 977.5 million Loan and Guarantee Facility. |
| **NOLs** | Net Operating Losses. |
| **NSMC** | North Sea, Mediterranean and Canada |
| **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 120 senior employees. These shares vest after three years, subject to TSR performance against a comparator group of 10 companies. |
| **PLEMs** | Pipeline End Manifolds. |
| **PLETs** | Pipeline End Terminations. |

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| **PLSV** | Pipelaying Support Vessel |
| **Reel-lay** | A pipelay method where long segments of rigid steel pipe stalks are welded, tested, coated and spooled onshore onto a large vertical pipe reel in a continuous length. Offshore the pipe is unspooled, straightened and over-boarded as the vessel moves forward. This is an extremely efficient method for the installation of pipelines up to 20 inches in diameter in all water depths. |
| **Relationship Agreement** | Relationship Agreement among Subsea 7 Inc. and Acergy S.A. and Siem Industries Inc. dated 20 June 2010. |
| **Report** | Subsea 7 S.A. Annual Report and Financial Statements 2011. |
| **Restricted Share** | Restricted shares were awarded to certain employees of Subsea 7 Inc and will vest 60% in June 2012 and 40% in June 2014, subject to the employee remaining in employment. |
| **Riser** | A pipe through which liquid travels upward from the seabed to a surface production facility. |
| **ROV(s)** | Remotely Operated Vehicle(s). |
| **SapuraAcergy** | SapuraAcergy Assets Pte Limited and SapuraAcergy Sdn Bhd. |
| **SEC** | US Securities and Exchange Commission. |
| **Shares** | Common shares of Subsea 7 S.A. |
| **SHL/Seaway Heavy Lifting** | Seaway Heavy Lifting Holding Limited, Seaway Heavy Lifting Limited and Seaway Heavy Lifting Engineering BV. |
| **S-lay** | A pipelay method consisting of continuously welding single lengths of steel pipe onboard 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. |
| **Sonamet** | Investments in Sonamet Industrial S.A and Servicos E Construcoes Petroliferas Lda (Zona Franca Da Madeira). |
| **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 reeling 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. |
| **SURF, or Subsea Umbilicals, Risers and Flowlines** | 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. |
| **Tie-backs** | A connection between a new oil and gas discovery and an existing production facility, improving the economics of marginal fields into profitable assets. Deployment of subsea tie-backs maximises the life of existing production infrastructure. |
| **Tonnage Tax** | An optional tax regime for shipping companies offered by HMRC that was introduced into the UK tax system as part of the Finance Act 2000. |
| **Total Shareholder Return** | 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. |
| **TS7** | Technip Subsea 7, a joint venture in which the Group has a 45% investment. |
| **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. |
| **VERIPOS** | A division of Subsea 7 that provides global positioning solutions offshore to DP3 standards. |
| **VPS** | Verdipapirsentralen, the Norwegian central securities depositary. |
| **Year, Period or 2011** | The period of 13 months from 1 December 2010 to 31 December 2011. |
| **$ 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-specification pipelay construction, remote intervention and diving support vessels.

**See overleaf for our full spectrum of vessels.**

## FIND MORE ONLINE...

This report is complemented by a range of online information at: **www.subsea7.com**

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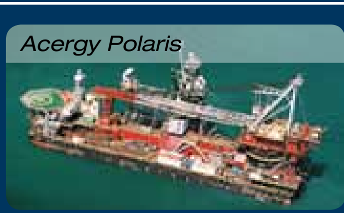
## Rigid Pipelay/Heavy Lift Vessels


Seven Borealis

Due for delivery in 2012.


Seven Oceans


Seven Navica


Acergy Polaris


Sapura 3000*


Oleg Strashnov*


Stanislav Yudin*

## Construction/Vertical Flex-lay Vessels


Seven Seas


Seven Pacific


Seven Eagle


Seven Mar

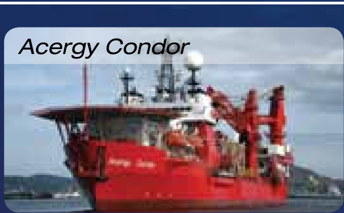

Skandi Neptune


Skandi Seven


Normand Oceanic

## Construction/Flex-lay (Horizontal) Vessels


Seven Sisters


Acergy Condor


PLSV (TBN)

Due for delivery in 2014.


Normand Seven

## Life-of-Field/Light Construction Vessels


Seven Viking


Acergy Legend


Acergy Petrel


Acergy Viking


Normand Subsea


Far Saga


Chloe Candies

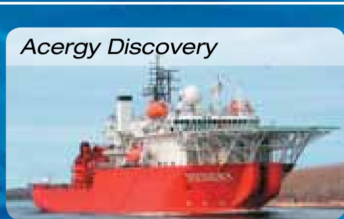

Grant Candies

## Diving Support Vessels


Seven Havila


Seven Atlantic


Seven Pelican

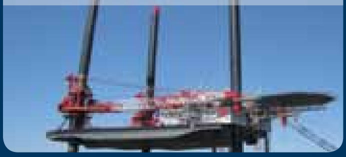

Acergy Discovery

*These vessels are operated under our Joint Ventures.


Acergy Antares


Acergy Orion

## Jack-up Vessel


Seven Inagha


Seven Phoenix


Skandi Acergy


Kommandor 3000


Lochnagar


Subsea Viking


Havila Subsea


Seisranger


Acergy Harrier


Acergy Osprey


Rockwater 1


Rockwater 2