

**Subsea 7 S.A.  
Société Anonyme**

**Annual Accounts  
and  
Report of the Réviseur d'Entreprises Agréé**

**31 December 2013**

412F, route d'Esch  
L-2086  
Luxembourg  
R.C.S. Luxembourg No. B43172

## **Subsea 7 S.A.**

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

## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### Report on the annual accounts

Following our appointment by the General Meeting of the Shareholders dated 28 June 2013, we have audited the accompanying annual accounts of Subsea 7 S.A., which comprise the balance sheet as at 31 December 2013 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the Board of Directors for the annual accounts*

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts 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 annual accounts 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 annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the annual accounts, 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 annual accounts 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 annual accounts.

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 annual accounts give a true and fair view of the financial position of Subsea 7 S.A. as of 31 December 2013, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

## **Report on other legal and regulatory requirements**

The directors' report, which is the responsibility of the Board of Directors, is consistent with the annual accounts 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, *Cabinet de révision agréé*



Eddy R. Termaten, *Réviseur d'entreprises agréé*  
Partner

4 March 2014

**Report of the Board of Directors to the Annual General Meeting of  
Subsea 7 S.A. (the Company)  
to be held at the registered office at 412F, route d'Esch, L-2086 Luxembourg.  
4 March 2014**

Dear Shareholders,

We are pleased to submit for your approval the Balance Sheet as at 31 December 2013 and the Profit and Loss Account for the year then ended.

The net loss for the year ended 31 December 2013 was \$33.2 million (2012: net profit of \$197.9 million). The net profit of \$197.9 million in 2012 was mainly as a result of dividend income of \$210.3 million. In July 2013, the Company paid \$199.2 million in dividends in respect of financial year 2012.

The Company has access to a working capital facility provided by Subsea 7 Treasury (UK) Limited which, in the opinion of the Directors, provides sufficient liquidity to support the business going forward. In addition the Directors believe that should additional short-term or long-term working capital be required, over and above that available from the Subsea 7 Treasury (UK) Limited facility, this would be made available from the Subsea 7 S.A. group.

*Board changes*

On 26 June 2013 Mr. Arild Schultz and Mr. Trond Westlie retired from the Board of Directors.

*Share repurchase plan*

On 7 October 2013, the Company announced a share buyback programme of up to \$200 million. The programme was approved pursuant to the standing authorisation granted to the Board of Directors at the Annual General Meeting held on 27 May 2011, which allows for the purchase of up to a maximum of 10% of the Company's issued share capital, net of purchases already made.

All repurchases will be made in the open market on the Oslo Børs, pursuant to certain conditions and 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 be held as treasury shares.

During 2013, 4,650,376 shares were repurchased through this programme by an indirect subsidiary of the Company for a total consideration of \$91.2 million.

*\$500 million 2.25% convertible notes due 2013 (2013 Notes)*

In September 2013 holders of an aggregate \$162.8 million (par value) of the 2013 Notes filed their conversion notice for their notes to be converted into common shares of the Company. In October and November 2013, a total of 7,763,453 common shares were delivered to noteholders from existing shares held in treasury (by an indirect wholly-owned subsidiary of the Company). The remaining \$337.2 million (par value) of the 2013 Notes were redeemed for cash at their principal amount in October 2013.

**Corporate Governance**

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

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

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

**Report of the Board of Directors to the Annual General Meeting of  
Subsea 7 S.A. (the Company)  
to be held at the registered office at 412F, route d'Esch, L-2086 Luxembourg.  
4 March 2014**

**Corporate Governance (continued)**

*Equity mandates*

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

*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 of Directors' right to acquire the Company's own shares 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.

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

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

*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.

*Take-overs*

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

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

	%(a)
Siem Industries Inc	19.8%
Folketrygdfondet	7.6%

a) Information is correct as at 31 December 2013.

**Report of the Board of Directors to the Annual General Meeting of  
Subsea 7 S.A. (the Company)  
to be held at the registered office at 412F, route d'Esch, L-2086 Luxembourg.  
4 March 2014**

**Legal and regulatory framework**

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

The Company'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 American Depository Receipts traded over-the-counter in the United States, the Company is subject to Luxembourg laws and regulations with respect to corporate governance.

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

**Articles of Incorporation**

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](http://www.subsea7.com).

**Risks and uncertainties**

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

The Group's working capital position will be affected by the timing of contract cash flows where the timing of receipts from clients (typically based on completion of milestones) may not necessarily match the timing of payments the Group makes to its suppliers. In executing some of its contracts the Group is often required by its clients in the normal course of business to issue performance related bonds and guarantees. Access to credit from financial institutions in support of these instruments is fundamental to the Group's ability to compete, particularly for large EPIC contracts. The availability of short- and long-term external financing is required to help meet the financial obligations as they fall due. In the event that such financing were to be unavailable or withdrawn, the Group's activities would be significantly constrained.

Investments in subsidiaries and amounts due from affiliated undertakings are reviewed periodically to assess whether there is objective evidence that the carrying value of the investment or receivable is impaired. In making this assessment, the Company considers whether or not they are able to recover the carrying value of the asset. Evaluating whether an investment in or amount due from an affiliated undertaking is impaired or if impairment should be reversed requires a high degree of management judgment. Estimating recoverable amounts involves complexity in estimating relevant future cash flows, based on assumptions about the future, and discounted to their present value. Long-term assumptions for major economic factors are made at group level, and are subject to a high level of management review.

**Report of the Board of Directors to the Annual General Meeting of  
Subsea 7 S.A. (the Company)  
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4 March 2014**

**Risks and uncertainties (continued)**

The Company had net current liabilities at the balance sheet date. A proportion of the debts are due from other Group entities which at the balance sheet date had net current liabilities, in certain circumstances parental support has been made available.

The Company has in place a risk management programme that seeks to limit the adverse effects of these factors on the financial performance of the Group. The Group seeks through committed banking facilities to meet its working capital needs and to finance the acquisition or construction of new assets. The Group cash position, access to liquidity and debt leverage are monitored closely by both the Executive Management and the Board.

**Future developments**

The Group operates in seabed-to-surface engineering, construction and services. In 2013, the Group has seen some project awards being postponed as oil operators reassessed their capital spending plans and priorities. The Directors remain confident, however, in their mid and long-term business prospects as deepwater and harsh environment projects are key for its clients as they face the challenge of declining reserves.

In an environment where projects are becoming larger and more technologically demanding, the Group offers the engineering and project management capabilities that our clients need to deliver their increasingly complex projects safely and in the most consistent and effective way.

Overall, the directors are comfortable with the future outlook for the Company.

**Subsequent events**

*Proposed dividend*

In the light of continued strong performance, the strength of the balance sheet and confidence in our business, the Board of Directors has recommended that shareholders approve a special dividend of NOK 3.60 per share at the next Annual General Meeting on 27 June 2014.

*Share repurchase plan*

As at 28 February 2014, the Group had repurchased a further 1,276,413 shares for a total consideration of \$23.1 million.

**Board of Directors**

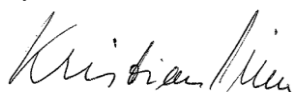
If there is a vacancy on the Board of Directors, the remaining directors appointed by the general meeting have the right to appoint a replacement director until the next meeting of shareholders who will ratify such appointment.

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

**Directors' Responsibility Statement**

We confirm that, to the best of our knowledge, the Annual Accounts for the year ended 31 December 2013 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. We also confirm that, to the best of our knowledge, the 2013 Annual Accounts include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties facing the Company.

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



Kristian Siem  
Chairman  
4 March 2014



Jean Cahuzac  
Director - CEO



**Subsea 7 S.A.**  
**Balance Sheet**  
**As at 31 December 2013**

(\$'000)

Assets	Notes	2013	2012	Liabilities	Notes	2013	2012
Financial assets				Capital and reserves			
Investments in affiliated undertakings	3	5,245,833	4,586,837	Subscribed capital	5	703,587	703,587
Participating interests	3	18,823	18,823	Share premium account	5	3,035,595	3,035,595
				Reserves			
				Legal reserve	5, 6	70,359	70,359
				Retained earnings	5	61,507	62,770
Current assets				(Loss)/profit for the financial year	5	(33,167)	197,915
Debtors	4	286,812	942,644	Shareholders' equity	5	3,837,881	4,070,226
Cash at bank		356	342				
				Creditors			
				Due and payable within one year	10	540,840	6,547
				Due and payable after more than one year	10	199,678	-
Prepayments and accrued income		1,575	3,127	Convertible bonds and convertible notes			
				Due and payable within one year	14	275,000	500,000
				Due and payable after more than one year	14	700,000	975,000
<b>Total assets</b>		<b><u>5,553,399</u></b>	<b><u>5,551,773</u></b>	<b>Total liabilities</b>		<b><u>5,553,399</u></b>	<b><u>5,551,773</u></b>

The accompanying notes form an integral part of these Annual Accounts.

**Subsea 7 S.A.**

**Profit and Loss Account  
For the year ended 31 December 2013**

**(\$'000)**

<b>Charges</b>	<b>Notes</b>	<b>2013</b>	<b>2012</b>	<b>Income</b>	<b>Notes</b>	<b>2013</b>	<b>2012</b>
Parent company guarantees - charges		51,539	24,907	Parent company guarantees - income		51,539	24,907
Interest payable and similar charges				Income from participating interests			
Other interest and similar charges		25,118	24,050	Dividend income in respect of affiliated undertakings		-	210,331
				Other interest receivable and similar income			
				In respect of affiliated undertakings		2,874	14,173
Other charges	7, 12	10,945	3,460	Other income	8	26	925
Tax on profit or loss	13	4	4				
Profit for the financial year		-	197,915	Loss for the financial year		33,167	-
		<u>87,606</u>	<u>250,336</u>			<u>87,606</u>	<u>250,336</u>
<b>Total charges</b>		<b><u>87,606</u></b>	<b><u>250,336</u></b>	<b>Total income</b>		<b><u>87,606</u></b>	<b><u>250,336</u></b>

The accompanying notes form an integral part of these Annual Accounts.

## **Subsea 7 S.A.**

### **Notes to the Annual Accounts as at 31 December 2013**

#### **1. Organisation**

Subsea 7 S.A. (the Company) is a holding company which was incorporated under the laws of Luxembourg on 10 March 1993. The Company has been incorporated for an unlimited period of time.

The object of the Company is to invest in subsidiaries which provide subsea construction, maintenance, inspection, survey and engineering services, predominantly for the offshore oil and gas industry. More generally, the Company is authorised to 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 any other means of all shares, stocks, debentures, bonds or securities; the acquisition of patents and licences it will administer and exploit. The Company is authorised to lend or borrow with or without security, provided that any monies so borrowed may only be used for the purpose of the Company, or companies which are subsidiaries of or associated with or affiliated to the Company; in general it is authorised to undertake any operations directly or indirectly connected with these objects.

The Company also prepares consolidated annual accounts in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union. Copies of the consolidated annual accounts are available at the registered office of the Company.

#### **2. Significant accounting policies**

The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements. Accounting policies and valuation rules are, besides the ones laid down by the law of December 19, 2002 as amended, determined and applied by the management of the Company. The Company maintains its books in US Dollars. Significant accounting policies are as follows:

##### **2.1 Format of annual accounts**

The annual accounts are presented in accordance with Article 26 of the law of 19 December 2002 apart from certain deviations from the general legal format requirements of Articles 34 and 46. In the opinion of the Directors, these deviations, in accordance with Article 26 (5) of the aforementioned law, were necessary in order to clearly present the financial position and results of the Company to the reader. There was no effect on the assets, liabilities, financial position and results of the Company as a result of these deviations.

##### **2.2 Financial assets**

Shares in affiliated undertakings and participating interests (Investments) are stated at cost less any permanent impairment in value. Article 51 (e) of the law of 19 December 2002 states that the components of asset and liability items must be valued separately. An annual impairment review is performed on an individual investment basis and any impairments are reflected in the profit and loss account in the relevant period. Earnings in investee companies are recognised when, and to the extent that, dividends are received from investee companies.

## Subsea 7 S.A.

### Notes to the Annual Accounts as at 31 December 2013

#### 2. Significant accounting policies (continued)

##### 2.3 Translation of foreign currencies

The Company maintains its accounts in US Dollars, this is the currency in which its capital is expressed and the annual accounts are prepared. Amounts in foreign currencies are translated into US Dollars on the following basis:

- formation expenses, the cost of acquisition of intangible, tangible and financial fixed assets denominated in a currency other than US Dollars are translated at historical exchange rates;
- all other assets denominated in a currency other than US Dollars are valued individually at the lower of their values translated into US Dollars at their historical exchange rate or exchange rate prevailing at the balance sheet date;
- all liabilities denominated in a currency other than US Dollars are valued individually at the higher of their values translated at historical exchange rate or exchange rate prevailing at the balance sheet date; and
- revenues and expenses denominated in a currency other than US Dollars are translated into US Dollars at the exchange rates applicable on the day on which they are collected or disbursed.

Only realised foreign exchange gains and losses, and unrealised foreign exchange losses are recognised in the profit and loss account.

##### 2.4 Share-based payments

Share-based payments for the Company are settled by its affiliates and therefore the Company does not account for these costs. Share-based payments 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 share-based payment transactions are recognised, by the Company's affiliates, over the period during which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

##### 2.5 Convertible bonds and convertible notes

Convertible bonds and convertible notes are accounted for as a debt instrument. The costs incurred in connection with the issuance of the convertible bonds and convertible notes are treated as a deferred debt cost and amortised over the life of the convertible bonds and convertible notes and recognised in other interest and similar charges. If the convertible bonds or convertible notes are converted at the option of the holders the deferred debt cost will be expensed immediately.

##### 2.6 Parent company guarantees

The Company issues parent company guarantees (PCGs) to third parties on behalf of its direct and indirect subsidiaries where requested. The Company receives a fee in respect of the PCGs issued, which is recorded as 'Parent company guarantees – income' within its profit and loss account. This income is recognised on a straight line basis over the period of the guarantee. A subsidiary of the Company provides management services to the Subsea 7 S.A. group (the Group) and is remunerated for these services with a fee equivalent to the PCG income received by the Company. The Company recognises this as 'Parent company guarantees – charges' within its profit and loss account.

##### 2.7 Interest payable and receivable

Amounts due from/owed to affiliated undertakings bear interest at normal commercial rates.

## Subsea 7 S.A.

### Notes to the Annual Accounts as at 31 December 2013

#### 2. Significant accounting policies (continued)

##### 2.8 Debtors

Debtors are recognised initially at fair value. In relation to amounts due from affiliated undertakings, a provision for impairment is made when there is objective evidence that the Company may not be able to collect all of the amounts due. Bad debts are written off when identified.

##### 2.9 Creditors

Amounts owed to affiliated undertakings and other creditors are stated at amortised cost.

#### 3. Investments in affiliated undertakings and participating interests

(\$'000)	Affiliated undertakings	Participating interests	Total
Balance as at 1 January 2013	4,586,837	18,823	4,605,660
Addition	658,996	-	658,996
	<u>5,245,833</u>	<u>18,823</u>	<u>5,264,656</u>
Balance as at 31 December 2013	<u>5,245,833</u>	<u>18,823</u>	<u>5,264,656</u>

The direct investments of the Company as at 31 December 2013 and 31 December 2012 were as follows:

Name of the company	Country	Percentage held		Cost (\$'000)	
		2013	2012	2013	2012
Acergy Holdings (Gibraltar) Limited	Gibraltar	100%	100%	3,855,887	3,855,887
Acergy (Gibraltar) Limited	Gibraltar	100%	100%	1,389,946	730,950
Subsea 7 Shipping Limited	Isle of Man	< 1%	< 1%	18,823	18,823
				<u>5,264,656</u>	<u>4,605,660</u>

On 28 March 2013 the Company made a capital contribution of \$659.0 million to Acergy (Gibraltar) Limited.

#### 4. Debtors

(\$'000)	2013	2012
Amounts due from affiliated undertakings	286,812	942,644
	<u>286,812</u>	<u>942,644</u>

## Subsea 7 S.A.

### Notes to the Annual Accounts as at 31 December 2013

#### 5. Shareholders' equity

(\$'000)	Subscribed capital	Share premium account	Legal reserve	Retained earnings	Total
Balance as at 1 January 2013	703,587	3,035,595	70,359	260,685	4,070,226
- Result for the year	-	-	-	(33,167)	(33,167)
- Dividends paid	-	-	-	(199,178)	(199,178)
Balance as at 31 December 2013	<u>703,587</u>	<u>3,035,595</u>	<u>70,359</u>	<u>28,340</u>	<u>3,837,881</u>

As at 31 December 2013, the authorised share capital comprised 450 million \$2.00 common shares (2012: 450 million \$2.00 common shares). The subscribed capital comprised 351,793,731 \$2.00 common shares (2012: 351,793,731 \$2.00 common shares).

Dividends paid during the year represented \$199.2 million paid in respect of the financial year ended 31 December 2012, as approved by the Annual General Meeting of Shareholders on 28 June 2013.

#### 6. Legal reserve

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

#### 7. Other charges

(\$'000)	2013	2012
Administrative expenses	10,910	3,423
Statutory audit fees	35	37
	<u>10,945</u>	<u>3,460</u>

#### 8. Other income

(\$'000)	2013	2012
Net foreign currency exchange gains	26	925
	<u>26</u>	<u>925</u>

## **Subsea 7 S.A.**

### **Notes to the Annual Accounts as at 31 December 2013**

#### **9. Share-based payments**

Share-based payments for the Company are settled by its affiliates and therefore the Company does not account for these costs. The most significant share-based schemes operated by the Group are:

##### **2003 Plan**

The Company operated a share option plan which was approved in April 2003 (the 2003 Plan). This plan included an additional option plan for key employees resident in France as a sub-plan (the 'French Plan), and additional options which were granted under the Senior Management Incentive Plan. The Compensation Committee appointed by the Board of Directors administers these plans. Options were awarded at the discretion of the Compensation Committee to directors and key employees.

Options under the 2003 Plan (and therefore also under the French Plan) are exercisable for periods of up to ten years, at an exercise price not less than the fair market value per share at the time the option is granted. All such options had vested at 31 December 2013. Share option exercises are satisfied by reissuing treasury shares. Furthermore, options are generally forfeited if the option holder leaves the Group under any circumstances other than due to the option holder's death, disability or retirement before his or her options are exercised.

No further share options will be granted under the 2003 Plan or the French Plan.

##### **2013 Long-term Incentive Plan**

The 2013 Long Term Incentive Plan (2013 LTIP) was approved by the Company's shareholders at the Annual General Meeting on 28 June 2013. The 2013 LTIP has a five-year term with awards being made annually and replaces the 2009 Long-term Incentive Plan (2009 LTIP). The aggregate number of shares 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. Grants are determined by the Compensation Committee, which is responsible for operating and administering the plan.

The 2013 LTIP is an essential component of the Group reward strategy, and was designed to align the interests of participants with those of the Company's shareholders, and enables participants to share in the success of the Group. The 2013 LTIP provides for share awards, which are earned after three years, based on certain performance conditions, and vest after at least three years.

Performance conditions are based on two measures: relative Total Shareholder Return (TSR) against a specified comparator group of companies and the level of Return on Average Invested Capital (ROAIC) achieved. Both performance conditions are determined over a three-year period.

During 2013, awards of 1,412,000 shares were made under the terms of the 2013 LTIP; 917,800 shares are subject to relative TSR performance measures and 494,200 are subject to ROAIC performance measures.

##### **TSR based awards**

The Group will have to deliver a TSR ranking above the median for any awards to vest. If the ranked TSR position of the Group during the three year period, as converted to a percentage, is equal to 50%, 20% of the share award will vest. If the actual ranked TSR position of the Group is greater than 50% and below 90%, the vesting of the share award between 20% and 65% is determined by linear interpolation. The maximum award of 65% would only vest if the Group achieved top decile TSR ranking.

## **Subsea 7 S.A.**

### **Notes to the Annual Accounts as at 31 December 2013**

#### **9. Share-based payments (continued)**

##### **ROAIC based awards**

ROAIC will be calculated for each of the three years of the performance period on a quarterly basis. If the average ROAIC achieved by the Group during the performance period is greater than 9% but less than 11%, vesting between 5% and 15% shall be determined by linear interpolation. If the actual ROAIC achieved by the Group during the performance period is greater than 11% but less than 14%, vesting between 15% and 35% shall be determined by linear interpolation. The maximum award of 35% would only vest if the Group achieved average ROAIC of 14% or greater.

Under the terms of the award plan participants are not entitled to receive dividend equivalent payments.

Approximately 150 senior managers and key employees participate in the 2013 LTIP. Individual award caps are in place such that no senior executive or other employee may be granted shares under the 2013 LTIP in a single calendar year that have an aggregate fair market value in excess of 150%, in the case of senior executives, or 100%, in the case of other employees, of their annual base salary as of the first day of the year of award. Additionally, a holding requirement for senior executives applies where senior executives must hold 50% of all awards that vest until they have built up a shareholding with a fair value of 150% of their annual base salary which must be maintained throughout their tenure.

##### **2009 Long-Term Incentive Plan**

The 2009 LTIP was approved by the Company's shareholders at the Extraordinary General Meeting on 17 December 2009. The 2009 LTIP had a five-year term but was replaced with the 2013 LTIP during 2013.

The 2009 LTIP provides share awards, which are earned after three years, based on certain performance conditions, and vest after at least three years.

Performance conditions are based on relative TSR against a specified comparator group of companies and are determined over a three-year period. The Group will have to deliver TSR above the median for any awards to vest. At the median level, only 30% of the maximum award will vest. If the actual ranked TSR position of the Group during the three year period, as converted to a percentage, is equal to or greater than 50% and below 90%, the vesting of the share award between 30% and 100% is determined by linear interpolation. The maximum award would only vest if the Group achieved top decile TSR ranking.

Approximately 120 senior managers and key employees participate in the 2009 LTIP. Grants were determined by the Compensation Committee, which is responsible for operating and administering the plan.

##### **Special Incentive Plan 2009**

The Special Incentive Plan 2009 (SIP 2009) was a cash-settled incentive plan designed to provide awards to selected executives and key employees. Awards under the SIP 2009 were in the form of a cash bonus, paid in April 2012, of between zero and twelve months' base salary, dependent on the Company's average share price as quoted on the Oslo Børs between 1 January 2012 and 31 March 2012. No other performance criteria applied. All amounts due were paid during the prior year.



## Subsea 7 S.A.

### Notes to the Annual Accounts as at 31 December 2013

#### 9. Share-based payments (continued)

##### Special Incentive Plan 2012

In September 2012, the Company put in place the Special Incentive Plan 2012 (SIP 2012), a cash-settled incentive plan designed to provide awards to selected employees. Awards under the SIP 2012 are in the form of a cash bonus payable in September 2014. The plan guarantees to pay a minimum of 25% of base salary. As well as the guaranteed incentive payment, employees could also receive a further payment of up to 25% of base salary, resulting in an overall maximum incentive payment of 50% of base salary. The share price must increase from \$23.16 to \$30.02 by the end of the performance period in order for maximum incentive payment to be paid. If the share price falls within this range, the amount of the additional incentive payment will be calculated on a straight-line basis. The Company's share price at the end of the performance period will be based on the average share price quoted on the Oslo Børs between 1 June 2014 and 31 August 2014. There are no other performance conditions.

##### Subsea 7 Inc. restricted stock award plan

Certain employees of the Group were awarded, prior to the Combination with Subsea 7 Inc, a total of 1.7 million shares. On Combination these awards were replaced by the Company with 1.8 million restricted share awards, at the exchange ratio 1.065 replacement restricted share for each previously awarded restricted share. The shares had a fair value of \$25.19 (NOK 151.3) per share equivalent to the market price on the Combination date.

The awards will normally vest and shares will be issued or transferred to the employee subject to the employee remaining in employment with the Group until the vesting dates that are specified in the award certificate. 60% of the awards vested in 2012, and the remaining 40% of the awards will normally vest in 2014.

Awards do not attract any dividends or dividend equivalents prior to the delivery of shares. Participants do not have any voting rights in respect of the vested number of shares awarded prior to the delivery of the shares. Once delivered all shares awarded under the share plan carry the same rights as any other issued common shares in the Company.

At 31 December 2013, 450,921 restricted shares were still to vest (2012: 501,189).

#### 10. Creditors

(\$'000)	2013			2012		
	Less than one year	One to five years	Total	Less than one year	One to five years	Total
Amounts owed to affiliated undertakings	536,286	199,678	735,964	-	-	-
Other creditors	4,554	-	4,554	6,547	-	6,547
	<u>540,840</u>	<u>199,678</u>	<u>740,518</u>	<u>6,547</u>	<u>-</u>	<u>6,547</u>

## **Subsea 7 S.A.**

### **Notes to the Annual Accounts as at 31 December 2013**

#### **11. Commitments and guarantees**

The Company arranges bank guarantees, which collectively refer to bank guarantees, performance bonds, tendering bonds, advance payment bonds, guarantees or standby letters of credit in respect of the performance obligations certain of its subsidiaries have towards their clients.

#### **Facilities**

The following facilities, entered into by affiliated undertakings, were guaranteed by the Company as at 31 December 2013:

#### **The multicurrency revolving credit and guarantee facility**

The Group has a \$600 million facility syndicated with a number of banks available for the issuance of guarantees or a combination of guarantees and cash drawings, subject to a \$100 million sub limit for cash drawings.

The facility is guaranteed by the Company, Class 3 Shipping Limited, Subsea 7 Shipping Limited, Subsea 7 Treasury (UK) Limited, Subsea 7 Limited and Subsea 7 Offshore Resources (UK) 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.

During 2013, the Group signed three \$100 million multi-currency revolving credit facility agreements, each with a separate bank. These facilities are exclusively available for cash drawings. The guarantors of the \$600 million facility are replicated within these three new facilities. Interest on the facilities is payable at LIBOR plus a margin plus any mandatory costs. The margin payable is calculated by reference to the ratio of aggregate utilisation to total commitment which may range up to 1.1% per year. Final maturity for each facility is August 2015.

Interest on the facilities 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, which may range up to 2.8% per year. The fee applicable for guarantees is linked to the same ratio of net debt to Adjusted EBITDA and may range up to 1.4% in respect of performance guarantees. The margin and guarantee fee are reset quarterly in line with changes in the Group's leverage.

#### **Seven Havila Loan**

In October 2008, the Group entered into a loan facility of NOK 920 million (\$164.9 million) with Eksportfinans. This loan facility was supported by a guarantee and additional facility provided by DNB (DNB facility) capped at NOK 978 million (\$175.3 million). The amount of the guarantee available under this agreement reduced in line with the repayment of the Eksportfinans loan. The final termination date of the DNB facility was no later than 28 February 2021.

A first priority mortgage on the vessel was provided as security on the loan and DNB facility. A charter guarantee was provided by the Company. Interest on the drawn loan facility was at a fixed rate of 4.65% per year until 2016. In addition a facility was available at NIBOR plus 2.2% with guarantee commission payable at 1.65% per year.

In February 2013, the Group repaid and cancelled these loan and guarantee facilities.

## Subsea 7 S.A.

### Notes to the Annual Accounts as at 31 December 2013

#### 11. Commitments and guarantees (continued)

Utilisation of Facilities:

(\$'000)	2013			2012		
	Utilised	Unutilised	Total	Utilised	Unutilised	Total
Cash loans	-	400,000	400,000	157,000	116,500	273,500
Guarantee facilities	183,000	317,000	500,000	249,000	251,000	500,000
Total	183,000	717,000	900,000	406,000	367,500	773,500

#### 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 \$490 million.

#### Guarantee arrangements with joint ventures

Normand Oceanic AS (NOAS) is a joint venture between Solstad Offshore ASA and the Group. NOAS is the vessel owning entity for the Normand Oceanic and has a loan facility which it used to part finance the purchase of the vessel. The initial loan value of \$152.3 million has a termination date of 20 July 2017. NOAS also entered into an interest rate swap, maturing on 19 July 2017, for the notional amount of \$152.3 million, swapping a floating rate based on LIBOR to a fixed rate of 0.85% per annum. Both Solstad Offshore ASA and Subsea 7 S.A. have provided guarantees to the banking syndicate guaranteeing 50% of the payment obligations and liabilities under the loan and hedging agreements.

SapuraAcergy is the collective term for the Group's investments in its joint ventures SapuraAcergy Assets Pte Limited (SAPL) and SapuraAcergy Sdn. Bhd. (SASB). The joint venture partner for both joint ventures is Nautical Essence Sdn. Bhd. which is wholly owned by SapuraCrest Petroleum Berhad.

At 31 December 2013, SASB had a \$111 million multi-currency facility for the financing of the Gumusut-Kakap project. Both the Company and SapuraCrest Petroleum Berhad have issued guarantees for 50% of the financing respectively. The facility consists of \$51 million available for the issuance of performance bank guarantees, \$30 million available for letters of credit, and two revolving credit facilities totalling \$30 million. At 31 December 2013 the amount drawn under the principal bank guarantee was \$50 million (2012: \$1 million), \$0.4 million was drawn under the letter of credit facility (2012: \$0.3 million) and \$nil (2012: \$10 million) was drawn under the \$30 million revolving credit facilities.

In 2007 the respective parent companies issued a charter guarantee guaranteeing the *Sapura 3000* charter payments from SASB to SAPL. The limit of the guarantee is the sum of the outstanding amounts under the \$240 million Facility Agreement of SAPL less \$100 million. Any call under the guarantee will not result in a lump sum payment being made, but the guarantors will have to service the debt by way of charter payments due until the termination date of the loan, which is 2 February 2015.

#### 12. Board of Directors' expenses

Fees paid to Directors for the year ended 31 December 2013 amounted to \$674,025 (2012: \$758,557).

## Subsea 7 S.A.

### Notes to the Annual Accounts as at 31 December 2013

#### 13. Taxes

(\$'000)	2013	2012
Tax on the profit or loss of the current year	4	2
Adjustment in respect of prior periods	-	2
	<hr/>	<hr/>
Current tax charge	4	4
	<hr/> <hr/>	<hr/> <hr/>

Following the abolition of the 1929 Holding Company tax regime, the Company became subject to the normal corporate income tax regime of Luxembourg. For the 12 month period ended 31 December, the Company was fully taxable at an effective rate of 29.22%. (12 months ended 31 December 2012 - 28.8%). The loss incurred in the year, for tax purposes, results in only the minimum corporate income tax liability being incurred.

No deferred tax asset has been recognised in respect of the losses incurred to date as it is not anticipated that the Company will be able to utilise the losses.

At 1 January 2013 and 1 January 2012 the unitary value of the Company was negative so only the minimum Net Wealth tax of Euro 62.50 is payable in respect of each year.

#### 14. Convertible bonds and convertible notes

##### \$500 million 2.25% convertible notes due 2013 (2013 Notes)

On 11 October 2006 the Company issued \$500.0 million in aggregate principal amount of 2.25% convertible 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 were split between the liability and equity components.

The 2013 Notes had an annual interest rate of 2.25% payable semi-annually in arrears on 11 April and 11 October of each year up to and including 2013. They were issued at 100% of their principal amount and matured on 11 October 2013 at 100% of their principal amount. The 2013 Notes were admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

The noteholders were granted an option which allowed them to convert the convertible notes into common shares with a conversion price of \$20.97 per share equivalent to 23,843,586 common shares.

In September 2013 holders of an aggregate \$162.8 million (par value) of the 2013 Notes filed their conversion notice for their notes to be converted into common shares of the Company. In October and November 2013, a total of 7,763,453 common shares were delivered to noteholders from existing shares held in treasury (by an indirect wholly-owned subsidiary of the Company). The remaining \$337.2 million (par value) of the 2013 Notes were redeemed for cash at their principal amount in October 2013.

## Subsea 7 S.A.

### Notes to the Annual Accounts as at 31 December 2013

#### 14. Convertible bonds and convertible notes (continued)

##### Due and payable within one year

##### \$275 million 3.5% convertible bonds due 2014 (2014 Notes)

As part of the Combination, the Group acquired \$275 million in aggregate principal amount of 3.5% convertible bonds due 2014.

The 2014 Bonds have an annual interest rate of 3.5% payable semi-annually in arrears on 13 April and 13 October of each year up to and including 2014. They were issued at 100% of their principal amount and unless previously redeemed, converted or cancelled will mature on 13 October 2014 at 100% of their principal amount.

The bondholders were granted an option which allows them to convert the 2014 Bonds into common shares with a conversion price on Combination of \$16.88 per share equivalent to 16,291,469 common shares, or at the Combination date approximately 4.8% of the Group's issued share capital (excluding treasury shares held). All \$275 million of the 2014 Bonds remained outstanding as at 31 December 2013 with a conversion price at that date of \$15.82 (2012: \$16.25) per share following the payment of the dividends since issuance, equivalent to 17,383,059 (2012: 16,923,077) common shares, or approximately 5.2% (2012: 5.1%) of the Group's issued share capital (excluding treasury shares held) as at 31 December 2013. The 2014 Bonds 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 continue to be adjusted in line with the 2014 Bonds' terms and conditions.

The following is a summary of certain other terms and conditions that apply to the 2014 Bonds:

- the 2014 Bonds 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 bonds will rank equally with other debt issuance
- a cross default provision subject to a minimum threshold of \$20.0 million and other events of default in connection with non-payment of the 2014 Bonds
- various undertakings in connection with the term of any further issuance of common shares, continuance of the listing of the shares and the 2014 Bonds on recognised stock exchanges
- provisions for the adjustment of the conversion price in certain circumstances.

##### Due and payable after more than one year

##### \$700 million 1.00% convertible bonds due 2017 (2017 Notes)

On 5 October 2012, the Group issued \$700.0 million in aggregate principal amount of 1.00% convertible bonds due 2017. The issuance was completed on 5 October 2012 with the receipt of net proceeds after deduction of issuance related costs of \$697.9 million. The issuance costs of \$2.1 million have been split between the liability and equity components.

The 2017 Bonds have an annual interest rate of 1.00% payable semi-annually in arrears on 5 April and 5 October of each year up to and including 2017. They were issued at 100% of their principal amount and unless previously redeemed, converted or cancelled will mature on 5 October 2017 at 100% of their principal amount.

The bondholders were granted an option which allows them to convert the convertible bonds into common shares with an initial conversion price of \$30.10 per share equivalent to 23,255,814 common shares, or at the date of issue approximately 7.0% of the Company's issued share capital (excluding treasury shares held). All \$700 million of the 2017 Bonds remained outstanding as at 31 December 2013 with a conversion price at that date of \$29.31 (2012: \$30.10) per share following the payment of the dividends since issuance, equivalent to 23,882,634 (2012: 23,255,814) common shares, or approximately 7.1% (2012: 7.0%) of the Group's issued share capital (excluding treasury shares held) as at 31 December 2013.

## **Subsea 7 S.A.**

### **Notes to the Annual Accounts as at 31 December 2013**

#### **14. Convertible bonds and convertible notes (continued)**

##### **Due and payable after more than one year**

##### **\$700 million 1.00% convertible bonds due 2017 (2017 Notes) (continued)**

The conversion price will continue to be adjusted in line with the 2017 Bonds' terms and conditions.

There is also an option for the Company to call the 2017 Bonds on or after 26 October 2015 if the price of the common shares exceeds 130% of the conversion price for a specified period or at any time provided that 90% or more of the 2017 Bonds have been redeemed or converted into shares.

The following is a summary of certain other terms and conditions that apply to the 2017 Bonds:

- the 2017 Bonds 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 bonds will rank equally with other debt issuance
- a cross default provision subject to a minimum threshold of \$25.0 million and other events of default in connection with non-payment of the 2017 Bonds
- various undertakings in connection with the term of any further issuance of common shares and continuance of the listing of the shares
- provisions for the adjustment of the conversion price in certain circumstances.

#### **15. Treasury shares**

On 7 October 2013, the Company announced a share buyback programme of up to \$200 million. The programme was approved pursuant to the standing authorisation granted to the Board of Directors at the Annual General Meeting held on 27 May 2011, which allows for the purchase of up to a maximum of 10% of the Company's issued share capital, net of purchases already made.

All repurchases are made in the open market on the Oslo Børs, pursuant to certain conditions and 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 are held as treasury shares.

During 2013, 4,650,376 (2012: 8,567,073) shares were repurchased by an indirect wholly-owned subsidiary of the Company.

As at 31 December 2013, no common shares (2012: Nil) were held directly by the Company as treasury shares.

As at 31 December 2013, 14,193,786 (2012: 17,662,188 ) treasury shares were held by an indirect, wholly-owned subsidiary of the Company and 2,210,297 (2012: 2,492,344) were held by employee benefit trusts.

#### **16. Related party transactions**

The Company has taken advantage of the exemption under the law of 19 December 2002, Article 65 which does not require the disclosure of transactions with wholly-owned members of the Group.

The Company is an associate of Siem Industries Inc. and is equity accounted for within Siem Industries Inc.'s consolidated annual accounts. Payments were made to Siem Industries Inc. in relation to the services provided by Mr Siem and other services totalling \$200,000 (2012: \$200,000).

## **Subsea 7 S.A.**

### **Notes to the Annual Accounts as at 31 December 2013**

#### **17. Subsequent events**

##### *Proposed dividend*

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

##### *Share repurchase plan*

As at 28 February 2014, the Group had repurchased a further 1,276,413 shares for a total consideration of \$23.1 million.