

SUBSEA 7 S.A.
**ANNUAL
REPORT
2016**



WHO WE ARE

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

We provide cost-effective technical solutions to enable the delivery of complex projects in all water depths and challenging environments.

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

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GLOBAL OPERATIONS



Key

- SURF and Conventional ▨ i-Tech Services
- Corporate – includes Renewables and Heavy Lifting

2016 GROUP FINANCIAL HIGHLIGHTS

Adjusted EBITDA

\$1,142m

(2015: \$1,217m)

Net income

\$418m

Including a goodwill impairment charge of \$90m. (2015: Net loss \$37m, including a goodwill impairment charge of \$521m)

Cash and cash equivalents

\$1,676m

(2015: \$947m)

Diluted earnings per share

\$1.27

(2015: \$(0.05))

CHAIRMAN'S STATEMENT



“We are focused on creating long-term value, growing our business through the cycle and investing in market-leading capability.”

Kristian Siem
Chairman

To the shareholders of Subsea 7 S.A.

Subsea 7 delivered strong operational and financial results in 2016 despite the continued industry headwinds. Group revenue was \$3.6 billion and Adjusted EBITDA was \$1.1 billion, down 25% and 6% respectively, reflecting lower levels of market activity as clients continued to minimise expenditure in an environment of low and uncertain oil and gas prices. The Adjusted EBITDA margin of 32% was higher than the prior year reflecting active cost management, consistently good operational execution and successful completion of peak-cycle projects. Net income of \$418 million included a \$158 million impairment charge relating to our onshore and offshore assets and \$90 million impairment charge relating to goodwill. Cash generation remained strong in 2016, with gross cash of \$1.7 billion at 31 December 2016, an increase of \$730 million from the position 12 months earlier.

Strengthening our market-leading capabilities

In 2016, we further reduced our capacity and costs worldwide as the industry downturn continued. This was achieved while maintaining our internal capabilities and expertise, without compromising on our long-term strategy. Our new-build vessels programme is complete, with the final three vessels delivered in the first quarter of 2017. We have maintained our investment in technology through the downturn and acquired Swagelining, a specialist in pipeline technology, further growing our portfolio of differentiated products. Our engineering innovation programmes achieved successful results, in particular with respect to developing longer tie-backs on marginal fields. In January 2017, an offer was made by Subsea 7 to acquire the remaining 50% ownership interest in its joint venture Seaway Heavy Lifting, in order to increase our participation in Renewables and Heavy Lifting services, where we expect increased activity and long-term growth.

A focused and responsive partner to our clients

Subsea 7 is a specialised contractor to the offshore energy industry, with a leading market position built on over 30 years of engineering, construction and project management experience. This enabled Subsea 7 to anticipate the change in industry trends as the oil cycle peaked in 2014 and we responded promptly to this shift. Through early involvement in projects and close relationships with clients we have taken a leading role in the evolution of new ways of working and technology innovation to adapt to the new market environment and to lower projects costs. The Subsea 7 alliances with OneSubsea (a Schlumberger company) and KBR / Granherne have gained momentum during the year, strengthened our business and positioned us well for the short and long-term.

Values-driven strategy

Subsea 7 is founded on a set of five core Values: Safety, Integrity, Innovation, Performance and Collaboration. Our Values are central to our culture and define the way that we behave. The challenging industry environment has highlighted the importance of innovation and collaboration in Subsea 7's ability to deliver cost-effective solutions for our clients. I am proud of Subsea 7's track record of reliable and responsible operational execution, performing well for our clients as well as respecting the environment and communities where we work. We are committed to conducting our business with the highest standards of safety and ethical integrity, setting a high benchmark that our people, our clients and our business partners can depend on.

Disciplined approach to capital management

We are focused on generating long-term value for our shareholders through strategic investments to strengthen our business and by remaining financially secure through the cycle. During 2016 the Group repurchased \$113 million of the \$700 million convertible bonds, taking the total face value of bonds held by the Group to \$264 million, thereby reducing the bonds redeemable at maturity in October 2017 to \$436 million. The Group did not repurchase any shares in 2016, however the share repurchase programme remains in place until July 2017. Industry conditions remain challenging. Nevertheless, assuming that oil price increases are sustained and cost reductions continue to be achieved, there is cause to believe that awards for offshore field developments could increase within the next 12 months. In light of the Group's excellent operating performance and resulting strong financial and liquidity position, the Board of Directors will recommend to the shareholders at the Annual General Meeting that a special dividend of NOK 5.00 per share be paid, equating to a total dividend of approximately \$200 million.

My thanks

On behalf of the Board of Directors, I would like to thank our shareholders and our clients for their ongoing support and confidence. I would also like to thank our people and our business partners for their commitment and contribution as we work together to deliver successful results at a time of challenging industry conditions.

Kristian Siem
Chairman



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.

CHIEF EXECUTIVE OFFICER'S REVIEW



“Our cost discipline and innovation have delivered improved industry solutions and helped our clients to develop their oil and gas reserves.”

Jean Cahuzac
Chief Executive Officer

Subsea 7 performed well in 2016. Our strong project execution and cost discipline delivered good financial performance despite the challenging market conditions, with lower levels of offshore activity compared to prior years.

We have a long and distinguished track record of delivering large and complex projects in harsh offshore environments worldwide. In 2016 we completed several major projects, most of which had been awarded before 2014 when the industry downturn began to take hold. These projects were delivered safely and successfully, our efficiency surpassing the expectations of our clients.

Our financial and liquidity positions have strengthened throughout the year, with net cash of \$1,249 million at 31 December 2016 and a further \$1.1 billion of available credit and guarantee facilities. Our financial security gives our clients confidence that they can depend on us and enables us to invest in opportunities to grow our business through the cycle.

Order backlog was \$5.7 billion at the end of the year. We were awarded \$3.4 billion of new work during the course of 2016, including a major offshore wind farm installation project. Awards to market were subdued and our order intake relating to oil and gas projects was \$1.3 billion lower than the prior year. We have secured market share through early and focused client engagement and have kept a disciplined approach with respect to the appropriate level of risk. We have formed several client partnerships to support operators as they make their field developments more economic to drive an increase in order intake for Subsea 7.

Shaping our organisation for the future

The current industry downturn has challenged industry participants to develop innovative technological solutions and to address inefficiencies. Although there are indications that oil supply and demand are becoming more balanced, the offshore oil and gas industry needs to maintain a lower cost base and improved efficiencies to remain competitive with other sources of energy supply.

At Subsea 7 we have reduced our capacity and restructured our organisation to better meet the needs of our clients. Since the start of the downturn we have achieved over \$1 billion of annualised cost reductions and efficiencies through reshaping our business and identifying better ways of working with our clients, partners and suppliers.

We have continued to invest in capability: developing our people, modernising and enhancing our fleet and growing our technology portfolio. It is our capability that differentiates us and makes us a market leader in offshore engineering and construction.

Focusing on our clients' needs

We have increased our focus on our commercial and long-term strategic priorities. Our leaner organisational structure supports this, comprising three Business Units: SURF and Conventional, i-Tech Services and Corporate (including Renewables and Heavy Lifting).

We delivered consistently high levels of operational performance in 2016. We optimised our utilisation and our risk management approach remained robust. We executed offshore in highly complex operational environments, with technology and engineering at the forefront of oil and gas development. Our ability to manage these conditions and take a firm stance on the level of acceptable risk, regardless of the competitive market pressures, is core to our performance and is central to what we do.

Our clients trust us to deliver their projects safely, on time and within cost expectations; our track record of success has supported long-standing and deep client relationships. By working closely with our clients we have been able to introduce new ways of working that have lowered project costs, leading to awards of projects that otherwise would not have been viable.

Developing our market-leading position

Subsea 7 is the only global pure-play engineering, construction and services contractor to the offshore energy industry. This focused offering differentiates us as a preferred partner for our clients and other suppliers in the offshore energy industry.

In 2016, we worked on innovative new technology and provided our clients with detailed engineering studies for integrated field developments through our alliance with OneSubsea, a market-leading Subsea Production System (SPS) provider. Our alliance with engineering company KBR and its wholly-owned subsidiary, Granherne, also progressed well, growing concept, pre-FEED and early engineering engagement with clients. Early in 2017, we made an offer to acquire the remaining share in our joint venture, Seaway Heavy Lifting. If concluded, this addition will enhance our market presence in Renewable energy and Heavy Lifting services.

Looking ahead

The oil and gas market has undergone a transformational downturn and we have responded with innovation and reorganisation to drive down costs and find better, more efficient solutions. Our focused strategy and differentiated offering have been effective in strengthening our market position and changing the industry dynamics. We are well positioned to build on these strengths as supply and demand establish a new equilibrium in the coming months and years.

Jean Cahuzac
Chief Executive Officer

External market

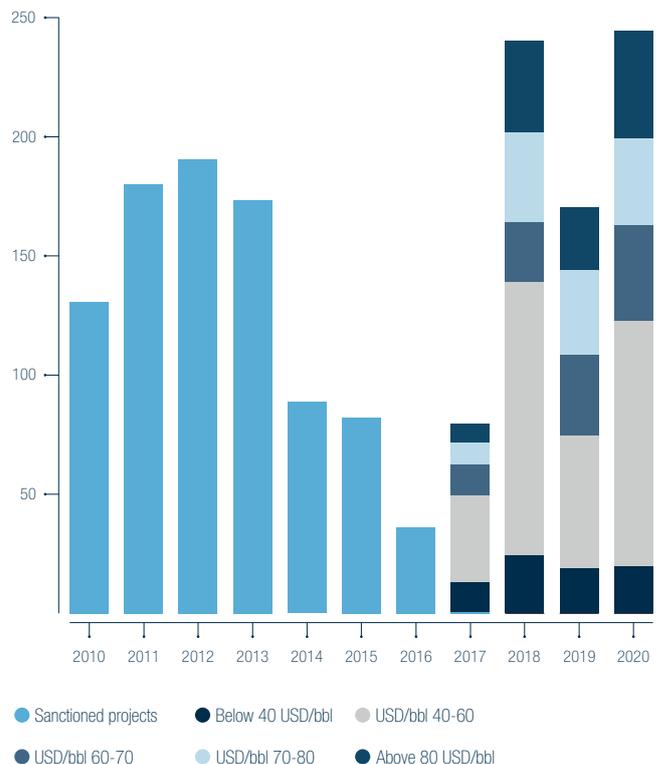
Long-term fundamentals remain intact

The International Energy Agency forecasts a 30% rise in global energy demand to 2040, with a 50% increase in natural gas consumption. Oil demand growth is slower, but demand is still expected to exceed 103 million barrels per day by 2040. This demand growth, as well as natural field decline, underpins a need for continued investment in new and existing field developments. Renewable energy is expected to remain the fastest growing source of electricity generation over the next five years, with market share increasing to 28% by 2021.

Market re-balancing has begun

Low oil and gas prices have necessitated significant year-on-year investment cuts from operators through 2015 and 2016. The effects of these investment cuts on global production began to be seen through 2016 as markets begin to move towards balance, leading to visible stock draws in the second half of the year. New developments will have to be sanctioned soon to avoid a supply gap in the coming years. We expect 2016 will represent the low point of the cycle for project investment decisions with a gradual recovery in project sanctions in 2017 and a positive trend thereafter. Subsea Umbilicals, Risers and Flowline (SURF) awards to market are expected to follow as more projects are sanctioned, with construction activity offshore typically commencing 12 to 18 months after a project is awarded.

Offshore greenfield capital expenditure by sanctioning year
(USD billion)



Source: Rystad Energy UCube, at February 2017

The chart shows total offshore greenfield costs for developing new projects. The not yet sanctioned investments are split by the breakeven oil price for the projects. The forecast is based on Rystad Energy base case oil price.

OPERATING ACROSS THREE MAJOR OFFSHORE SEGMENTS

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

SURF AND CONVENTIONAL

Subsea 7 is a global market leader in the Subsea Umbilicals, Risers and Flowlines (SURF) sector, undertaking over 1,000 projects successfully over the last 20 years. In every major offshore region we safely execute projects to connect seabed wellhead structures to surface facilities such as platforms and floating production systems.

Our projects are often undertaken in remote and harsh environments, with specific and complex offshore challenges and risks. Our clients can depend on us to deliver large and complex projects, as evidenced by our strong track record of best-in-class execution. We have the experience and expertise to consistently deliver successful outcomes in a safe and sustainable manner.

Our alliance with OneSubsea, where we operate jointly under the brand name Subsea Integration Alliance, was formed in 2015. It embraces the opportunity to lower costs and reduce risks for our clients by combining our SURF services with OneSubsea's Subsea Production Systems (SPS) offering. The reaction of our clients to the alliance has been positive, with high levels of interest shown, and the first award on an integrated basis was made to the alliance in the fourth quarter 2016.

Our alliance with leading engineering company KBR and its subsidiary Granherne delivers Concept and Front End Engineering and Design (FEED) services to our clients. This early engagement enables the alliance to work with the client at the start of the development lifecycle when value creation can be optimised at the critical concept evaluation stage.

As a pure-play contractor to the offshore energy industry, we can collaborate more closely with our clients and be more flexible in our approach. Our agreements to partner with several clients are evidence of this. These collaborative long-term arrangements ensure early engagement, and help these clients find the optimum solution for their field development needs.

Our Conventional services involve the fabrication, installation, extension and refurbishment of fixed and floating platforms and associated pipelines in shallow water environments, mainly in West Africa. In addition, we offer Hook-up services comprising the installation of modules on new platforms and the refurbishment of topsides of existing fixed and floating production facilities.



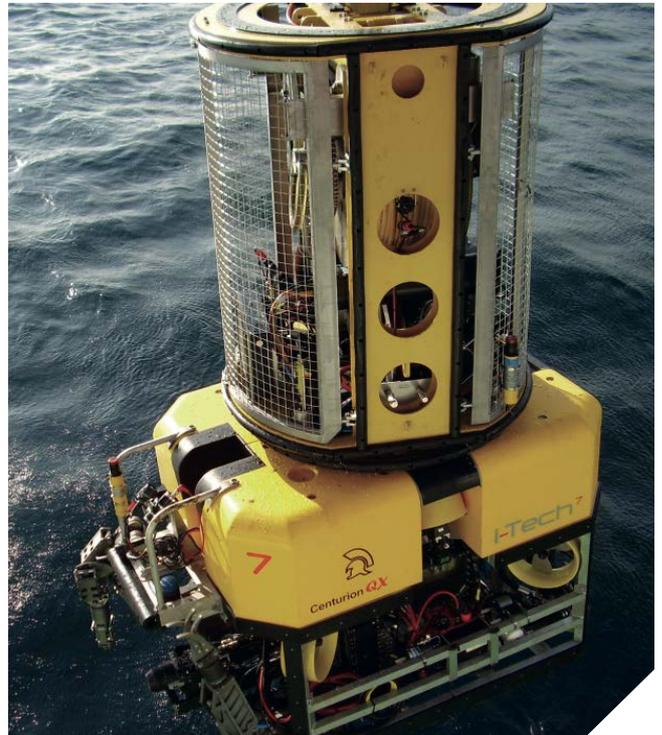
i-TECH SERVICES

For more than 35 years, Subsea 7 has been providing clients with standalone and comprehensive suites of services, products and enabling technologies worldwide, targeting mainly the Inspection, Maintenance and Repair of existing offshore infrastructures. We are one of the leading, fully integrated offshore providers of such services in the world.

With access to over 175 Remotely Operated Vehicles (ROV) and a fleet of ROV Support Vessels we are able to offer clients a dedicated and bespoke service designed around their needs. Our solutions are built on our core strengths of: ROV and diving intervention; survey and inspection; performance monitoring; data management and asset integrity; tooling and repair products; engineered solutions; production sampling; and drill rig support.

We offer our clients bespoke ROV tooling solutions, designed by our experienced engineers to address specific requirements such as intervention, manipulation, cleaning and cutting. To date we have designed and developed over 18,000 bespoke products to provide intervention tooling solutions to solve a variety of industry challenges. Many of these solutions have become industry standards.

i-Tech Services is a global business with operational bases in the UK, Brazil, US and Australia.



RENEWABLES / HEAVY LIFTING*



Our joint venture, Seaway Heavy Lifting, operates two world-class heavy lifting vessels and is active in three specialist segments of the offshore energy market: the installation of offshore wind farm foundations; heavy lifting operations for oil and gas structures; and decommissioning.

Seaway Heavy Lifting has successfully executed over 150 installation projects for oil and gas clients worldwide for 25 years. It has become increasingly active in the renewable energy industry in recent years, drawing on its expertise and experience in offshore oil and gas projects.

In 2016 Subsea 7 was awarded an EPCI contract to install the turbine foundations and array cables for a large wind farm development offshore Scotland, in alliance with Seaway Heavy Lifting. This project, awarded by Beatrice Offshore Windfarm Limited (BOWL), combined the project management and engineering expertise of Subsea 7 with the wind farm installation expertise of Seaway Heavy Lifting. Working together, Seaway Heavy Lifting and Subsea 7 are differentiated in their ability to provide engineering, procurement, installation and project management for offshore renewable energy projects that are contracted on a lump-sum basis.

In January 2017 Subsea 7 made an offer to acquire the remaining 50% ownership interest of Seaway Heavy Lifting, which if accepted would then become a wholly-owned subsidiary of the Group.

* Results reported within Corporate operating segment

OUR DIFFERENTIATED EXECUTION

Pipelay capability

Our diverse and capable fleet of pipelay vessels provide the full range of installation techniques: S-lay, J-lay, reel-lay and flex-lay as befits the optimum field development solution

Heavy construction

We have heavy construction capability with a range of high specification cranes ranging from 400t to 1000t on vessels with large deck areas and payload capacity

i-Tech Services

Our fleet of ROVs and ROV support vessels provide Life of Field Services including Inspection, Maintenance and Repair (IMR) services, integrity management and remote intervention. We are one of the leading providers with over 30 years' experience

Riser Systems

We have a comprehensive and adaptable suite of riser systems for fixed and floating platforms in all water depths

Remotely Operated Vehicles (ROVs)

Our fleet of over 175 ROVs and bespoke ROV tooling solutions provide our clients with Inspection, Maintenance and Repair (IMR) services worldwide

Subsea equipment

We have the technology and engineering expertise to optimise the design and installation of subsea equipment

Onshore facilities

We have strategically located spoolbases, fabrication yards and offices supporting our offshore operations

Engineering and project management

We have experienced engineers and project managers, ensuring our clients receive the best solutions and project performance

Diving services

We have a highly capable fleet of diving support vessels and experienced teams of saturation divers providing our clients with cost-effective construction and maintenance services

Renewables and Heavy Lifting

Our joint venture, Seaway Heavy Lifting, owns two specialist vessels that install wind farm foundations and perform heavy lifting activities for oil and gas, such as decommissioning

Pipeline Bundles

Our distinctive Pipeline Bundle technology allows development of a subsea field with a towed pipelay solution

Flowlines

Our market-leading flowline technologies contribute to solving flow assurance requirements and suit a wide range of field and product conditions

OUR GLOBAL OPERATIONS

We provide cost-effective technical solutions to enable the delivery of complex projects in all water depths and challenging environments.

Subsea 7 provides a full suite of offshore services ranging from Inspection, Maintenance and Repair intervention through to the installation of the largest and most complex offshore energy infrastructure.

Our operations are delivered by some of the most experienced onshore and offshore personnel in the industry. We have the flexibility to respond quickly and collaboratively to client demands, leveraging the full strength of our global resources and know-how.

Our project managers and engineers provide market-leading solutions, with core expertise centralised in our Global Project Centre to ensure consistent and reliable project delivery for our clients. We have substantial in-house technology expertise, expanding the boundaries of subsea technologies. Our projects are undertaken in remote and harsh offshore environments.

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

Our offshore operations are supported by our global infrastructure of spoolbases, fabrication yards and offices situated in key strategic locations around the world. These facilities, combined with our versatile fleet of highly capable vessels, enable us to respond efficiently to client requirements with fit-for-purpose solutions, and accommodate changes to work scopes, when required, to minimise downtime and keep projects on track. This flexibility is highly valued in our market. Our clients can depend on us to deliver large and complex projects, as evidenced by our strong track record of best-in-class execution.

BRAZIL



In Brazil, we completed the BC-10 project for Shell in 2016. We achieved high levels of utilisation for our fleet of Pipelay Support Vessels (PLSVs) on long-term contracts for Petrobras, installing new infrastructure and maintaining older fields. Our newly-built PLSVs, *Seven Rio* and *Seven Sun*, started their long-term day-rate contracts during 2016 and *Seven Cruzeiro* was successfully delivered and started working in the first quarter 2017. With the arrival of these high-specification vessels we have one of the most capable and flexible PLSV fleets, with four of our vessels able to lay pipe with top tension capacity of up to 550 tonnes.

GULF OF MEXICO



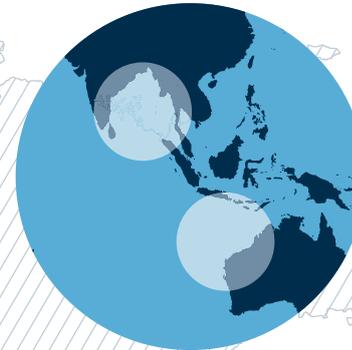
2016 saw the successful completion of the Holstein Deep project for Freeport-McMoRan and the Stones and Coulomb Phase II projects for Shell. Substantial progress was made on Hess's Stampede development. We were awarded the Coelacanth contract by Walter Oil and Gas, a fast track project with first oil achieved in only ten weeks. The key to the success of this project was our ability to optimise available resources at short notice and re-use solutions that were already qualified. We collaborated with our client, whose pragmatic approach helped accelerate the project's completion.

AFRICA



In Ghana we completed the TEN project for Tullow with a successful summer offshore campaign. In Nigeria we completed Total's OFON 2 project and in Angola, the Lianzi projects for Chevron were substantially completed. In Egypt we completed the East Nile Delta project for Pharaonic and made good progress on West Nile Delta Phase 1 for BP. During 2016 we were awarded the West Nile Delta Phase 2 and Atoll projects, reflecting our continued success in Egypt, with close to \$2 billion of contract awards over the last 18 months. We expect offshore Mozambique to be an important area of future offshore energy development.

ASIA PACIFIC



Substantial progress was made on Woodside's Persephone Phase 2 project offshore Australia in 2016 and work will continue in 2017. We were awarded the Greater Western Flank Phase 2 SURF project offshore Australia, by Woodside, and we will commence offshore operations in 2018. Some offshore areas are more favourable for near-term development than others. We continue to see momentum on projects to develop gas for domestic consumption and we now expect India to launch the next wave of large development projects, including Blocks 98/2 and KG-D6 by ONGC and Reliance respectively.

NORTH SEA AND CANADA



In Norway, on Statoil's Aasta Hansteen project, we concluded our third offshore campaign in readiness for the final hook-up with the topside structure when it is installed in 2018. Aasta Hansteen is the deepest development in the Norwegian Sea to date, and involves the world's largest spar platform. We executed the first reel-lay of mechanically lined BuBi® flowlines, connecting to the spar platform through the region's first steel catenary risers. Good progress to date has also been made on the Maria Project for Wintershall and the Martin Linge project for Total was successfully completed. In the UK we completed three bundle installations and the installation of the riser system for Premier's Catcher project. On the strength of our Pipeline Bundle technology, we were awarded the Callater project offshore UK, by Apache.

LOCAL PRESENCE

3

Spoolbases

Gulf of Mexico, Norway and the UK

4

Fabrication yards

Angola, Gabon, Nigeria and the UK

7

Operational support yards

Brazil, Norway*, Singapore, the UK and the US

22

Local offices

Angola, Australia, Brazil, Canada, Egypt, France, Luxembourg, Malaysia, Mexico, the Netherlands, Nigeria, Norway*, Portugal, Singapore, the UAE, the UK* and the US

2

Global Project Centre offices

France and the UK

*The Group has two operational support yards and three local offices in Norway and four offices in the UK

CREATING LONG-TERM VALUE

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

Our unique business model capitalises upon our key resources and relationships to deliver value for our clients and shareholders.

We deliver high quality services that are built on our core strengths of engineering, project management, supply chain and vessel management. This is supported by our commitment to invest in people, technology, assets and local presence to differentiate our service and deliver our vision to be the leading strategic partner in our market and create long-term value for our clients and shareholders.

We aim to deliver performance which is sustainable, transferable and consistently reliable, delivering efficient results for our clients and superior returns to our shareholders. Our Values are a fundamental part of how we operate. We believe Safety, Integrity, Innovation, Performance and Collaboration make us a distinctive leader in our industry.



OUR DIFFERENTIATORS

PEOPLE

Project delivery based on our expertise and know-how.

Our skilled and experienced engineers, project managers, onshore and offshore construction and support staff are the key to ensuring safe and reliable delivery. Our people are the foundation of our business.



People

8,500

3,700 onshore
4,800 offshore

TECHNOLOGY

Developing market-driven and cost-effective solutions.

Our technology is becoming ever more important in the cost-effective development of new offshore oil and gas fields, and in extending the life of existing offshore infrastructure.



Active patent families

157

Containing over 400 granted patents and over 450 pending patents

ASSETS

A diverse fleet of vessels and strategically positioned global assets.

We have a modern and diverse fleet of vessels and Remotely Operated Vehicles (ROVs). The scale, capability and versatility of our fleet give us a significant advantage and enable us to deploy vessels efficiently and effectively.



Vessels

29

Vessels in the active fleet

36

Vessels in the total fleet

ALLIANCES AND PARTNERSHIPS

Collaborating to develop optimal solutions

We have established global alliances with leading industry partners to support early engagement and integrated solutions, optimising the solutions we can provide for our clients. Our long-term client partnerships drive closer working relationships and lower costs.



2

Global alliances

4

Client partnerships

LOCAL PRESENCE

Building local businesses and embedding local capability.

Subsea 7 has an established local presence in all the major offshore energy regions worldwide. Having an embedded local presence allows us to build strong partnerships, and ensures that from an early stage of a project we are fully aligned with our clients.



Local associates, joint ventures and non-wholly owned subsidiaries

18

DELIVERING OUR STRATEGY

We have strategically developed our differentiators to provide world-leading seabed-to-surface engineering, construction and services to the offshore energy industry.

OUR DIFFERENTIATORS



PEOPLE

Project delivery based on our expertise and know-how



TECHNOLOGY

Developing market-driven and cost-effective solutions



ASSETS

A diverse fleet of vessels and strategically positioned global assets



ALLIANCES AND PARTNERSHIPS

Collaborating to deliver optimal field development solutions



LOCAL PRESENCE

Building local business and embedding local capability

MARKET CONTEXT

- Our teams of experts include specialist engineers, capable project managers and experienced offshore crews. With over 79 different nationalities working throughout the Group, we think globally and deliver locally.
- Our workforce has the capability and competency that make us a leading global provider of services to the offshore energy industry.
- Subsea 7 has a strong portfolio of technologies to meet current and future subsea development challenges.
- We own one of the largest and most recent groups of patents in the SURF and Life of Field market segments.
- We will continue to invest through the cycle to develop new enabling and cost-reducing technologies.
- We have one of the most capable and diverse fleets of vessels in our market segment. Our fleet of ROVs is one of the largest and most advanced in the world.
- Our modern and versatile fleet includes chartered and high-specification owned vessels. This balance gives us operational flexibility and retains full control of the capabilities that differentiate our services.
- Our alliance with OneSubsea provides integrated SPS and SURF solutions. Our alliance with KBR / Granherne delivers earlier engagement with concept and FEED engineering services.
- Our client partnerships evolved from our collaborative approach to developing optimal working relationships with our clients.
- Our local presence ensures we have in-country leadership teams and the capability to respond to our clients' needs in the world's primary offshore energy regions.
- Our 18 local associates, joint ventures and non-wholly owned subsidiaries give us a well-established local presence that complements our network of local offices and facilities.

2016 DELIVERY

Subsea 7 ended 2016 with a workforce of approximately 8,500 people, a reduction of approximately 1,300 from December 2015, as we implemented additional plans to reduce capacity in line with current low levels of market activity.

Our technology investment is focused on five strategic programmes: Riser Systems; Flowline and Pipeline Systems; Pipeline Bundles; Subsea Processing; and Life of Field and Remote Intervention.

In 2016 we acquired Swagelining, a market-leading polymer lining technologist.

We continued to adjust our capacity to meet market requirements and completed our fleet resizing plans, as announced in 2016. During 2016 one vessel was sold, two chartered vessels returned to their respective owners and at the year end four vessels were stacked. *Seven Sun*, a newly-built PLSV under a long-term contract with Petrobras, offshore Brazil, joined the fleet.

Our Subsea Integration Alliance with OneSubsea was awarded its first EPIC project in 2016, working for Murphy on the Dalmatian field in the US Gulf of Mexico.

We formed a new client partnership with Aker BP in 2016 with an innovative contracting model with shared risks and rewards.

A strong local presence is a competitive advantage. As well as satisfying client requirements it creates the opportunity to develop talent and expertise within the country. We have expanded our local presence in Egypt and other markets in 2016 to meet increased demand and opportunities.

2017 OBJECTIVES

We intend to preserve the scale and capability that enables us to successfully tender and execute offshore projects in all water depths worldwide. We will continue to invest in training to develop and retain our experienced and highly skilled workforce and maintain our market-leading position.

We will continue to differentiate ourselves by investing in and adopting new technologies which provide efficient and cost-effective subsea solutions for our clients. We will focus our attention on the technical solutions with near-term commercial application, in particular those technologies that enable marginal fields to be developed.

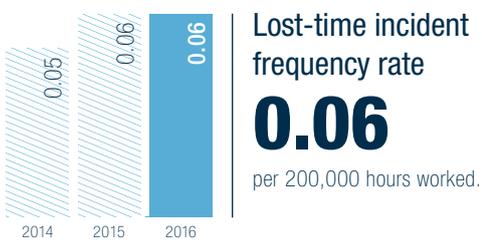
Ensuring that we have the right fleet size and specification to meet the prevailing market conditions is an ongoing requirement. In the first quarter of 2017 we completed a vessel investment programme with the delivery of *Seven Cruzeiro*, *Seven Arctic*, and *Seven Kestrel*.

Through early involvement in projects and close relationships with industry partners and clients we will take a leading role in the evolution of new ways of working and innovation to adapt to the market environment. Our pure-play focus and flexibility positions us well for this.

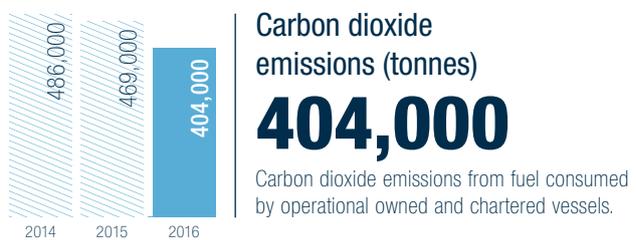
We will continue to develop our local presence and supply chain where we have operations and, where appropriate, enter into strategic local partnerships. Our regional focus will reflect the geographies with the greatest demand growth and potential for offshore energy development in the medium-term.

COMMITTED TO SAFE, ETHICAL AND RESPONSIBLE OPERATIONS

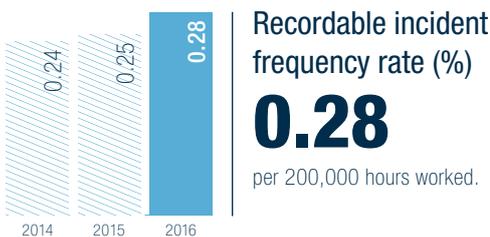
Our goals are: to protect the health and safety of our people and others who work on our sites and vessels; to take robust steps to ensure we conduct business with integrity and in compliance with applicable laws; to invest in the communities in which we operate; and to minimise our impact on the environment.



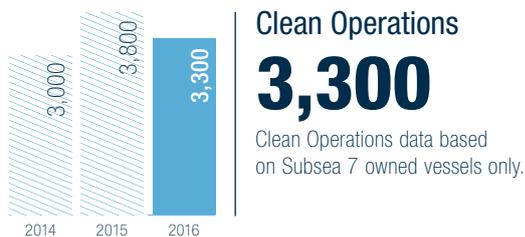
Lost-time incident frequency rate
0.06
per 200,000 hours worked.



Carbon dioxide emissions (tonnes)
404,000
Carbon dioxide emissions from fuel consumed by operational owned and chartered vessels.



Recordable incident frequency rate (%)
0.28
per 200,000 hours worked.



Clean Operations
3,300
Clean Operations data based on Subsea 7 owned vessels only.

Health and safety is our first priority

We aim for an incident-free workplace every day, everywhere. We are constantly striving to improve our safety performance, to mitigate risks and to develop a strong HSSEQ (Health, Safety, Security, Environment and Quality) culture across our global workforce in all our operations, both offshore and onshore. In 2016, all new hires and visitors to our vessels and operational sites received mandatory health and safety training related to the relevant location and we achieved 100% participation in our annual Health and Safety e-learning campaign.

In 2016, we had a reduction in the absolute numbers of lost-time incidents and recordable incidents. However, we had an increase in the frequency rates per 200,000 hours worked. Any incident or potential incident is investigated so that we can learn how to further improve our operations to make them safer for our people and all those that we work with.

Conducting business with integrity

Integrity is a core value of Subsea 7, and we aim to act fairly, honestly and with integrity at all times. We are committed to carrying out business in an ethical manner and in strict compliance with applicable laws; treating all our stakeholders fairly and with respect; and upholding and respecting human rights. Our goal is to earn the trust of all our stakeholders by acting consistently and reliably in accordance with these principles.

We have a Group-wide anti-corruption compliance and ethics programme, which is underpinned by our Values and designed in accordance with the International Anti-Bribery Management System Standard (ISO 37001).

Energy efficiency is a prime objective

Improved energy efficiency and reduced atmospheric emissions is one of our prime environmental objectives. Carbon dioxide emissions reported for our fleet of owned and chartered vessels for 2016 decreased to 404,000 tonnes of carbon dioxide from 469,000 tonnes in 2015. The emissions data reflects a combination of the work schedules of the vessels throughout the year and the impact of our actions to minimise emissions.

The Clean Operations metric we use is a count of energy-reducing activities during our operational activities. In 2016, we recorded over 3,300 Clean Operation activities relating to our owned vessels.

Our integrated Business Management System is in full compliance with, and certified to, the environmental management standard ISO 14001 2015. Our policy is to ensure that we are fully compliant with all applicable international and local legislation, including environmental legislation, everywhere we operate.

GOVERNANCE OVERVIEW



“Our culture of good corporate governance and compliance underpins our ability to deliver our vision.”

At Subsea 7, we see corporate governance as more than just a means of complying with the regulations that govern publicly listed companies. By enabling us to demonstrate to our stakeholders that we seek to go beyond compliance, we have an opportunity to earn their trust.

For that reason, our corporate governance activities are closely connected with the core values of our company, one of which is integrity (see page 16 opposite for more information). For us, acting with integrity means that stakeholders can rely on us to act honestly, fairly and transparently at all times.

To achieve this objective we have in place a rigorous system of internal controls, which is described in this section of this report. The Board of Directors and its committees ultimately oversee the effectiveness of these controls, monitoring our performance to safeguard our culture of ethical business conduct.

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 its committees, and the Executive Management Team. Our governance structures and controls help to ensure that we run our business in an appropriate manner wherever the Group operates for the benefit of clients, shareholders, employees and other stakeholders.

Sir Peter Mason
Chairman of the Corporate Governance and
Nominations Committee

Senior Independent Director

GOVERNANCE AT A GLANCE

The areas listed below, on which we report on the pages indicated, are aligned with the Norwegian Code of Practice for Corporate Governance.

- Implementation and reporting on corporate governance (see page 24).
- Business (see page 20).
- Equity and dividends (see page 24).
- Equal treatment of shareholders and transactions with close associates (see page 25).
- Freely negotiable shares (see page 25).
- General meetings (see page 24).
- Nominations Committee (see page 26).
- Corporate assembly and Board of Directors (see page 21).
- The work of the Board of Directors (see page 22).
- Risk management and internal control (see page 23).
- Remuneration of the Board of Directors (see page 27).
- Remuneration of executive personnel (see page 27).
- Information and communications (see page 29).
- Take-overs (see page 29).
- Auditor (see page 28).

BOARD OF DIRECTORS

Kristian Siem, 1949

Chairman^{2,3}

Mr Siem became Chairman of the Board of Directors of Subsea 7 S.A. in January 2011, prior to which he was Chairman of the Board of Directors of Subsea 7 Inc. from January 2002. Mr Siem has a degree in Business Economics and has been active in the oil and gas industry since 1972. Mr Siem is the Chairman of Siem Industries Inc. as well as a director of Siem Offshore Inc., Siem Shipping Inc. (formerly Star Reefers Inc.), Flensburger Schiffbau-Gesellschaft mbH & Co. KG, North Atlantic Smaller Companies Investment Trust plc and Frupor S.A. Past directorships include Kvaerner ASA and Transocean Inc. Mr Siem is a Norwegian citizen.

Sir Peter Mason KBE, 1946

Senior Independent Director^{*2}

Sir Peter Mason KBE has been the Senior Independent Director of Subsea 7 S.A. since January 2011, prior to which he was Chairman of Subsea 7 S.A. from May 2009. Previously he served as an Independent Director of Subsea 7 S.A. from October 2006. Sir Peter brings extensive management and oil service experience, having served as Chief Executive of AMEC from 1996 until his retirement in September 2006. Prior management positions include Executive Director of BICC plc and Chairman and Chief Executive of Balfour Beatty. He is a Fellow of the Institution of Civil Engineers, a Fellow of the Royal Academy of Engineering and holds a Bachelor of Science degree in Engineering. Sir Peter was a Non-Executive Director of BAE Systems plc from January 2003 until May 2013 and has been Chairman of the Board of Directors of Thames Water Utilities Ltd since December 2006, a Non-Executive Director of Spie S.A. since 2011 and the Chairman of AGS Airports Limited since December 2014. Sir Peter is a British citizen.

Jean Cahuzac, 1954

Director and Chief Executive Officer

Mr Cahuzac has been Chief Executive Officer of Subsea 7 S.A. since April 2008 and an executive member of the Board of Directors since May 2008. Mr Cahuzac has over 35 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, USA, where he held the positions of Chief Operating Officer and then President. 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 and Executive VP and President of the drilling division. He holds a Master's degree in Engineering from École des Mines de St-Étienne and is a graduate of the French Petroleum Institute in Paris. Mr Cahuzac has no other external appointments with public companies. As an Executive Director, Mr Cahuzac is not a member of any of the Board Committees. Mr Cahuzac is a French citizen.

Eystein Eriksrud, 1970

Director¹

Mr Eriksrud joined the Board of Directors of Subsea 7 S.A. in March 2012. Mr Eriksrud is the Deputy CEO of the Siem Industries Group. Prior to joining Siem Industries in October 2011, Mr Eriksrud was a partner in the Norwegian law firm Wiersholm Mellbye & Bech, from 2005, working as a business lawyer, particularly in the shipping, offshore and oil service sectors. Mr Eriksrud was Group Company Secretary of the Kvaerner Group from 2000–2002 and served as Group General Counsel of the Siem Industries Group from 2002–2005. He is a candidate of jurisprudence from the University of Oslo. Mr Eriksrud is the Chairman of Siem Offshore Inc., Electromagnetic

Geo-services ASA and Flensburger Schiffbaugesellschaft mbH KG, as well as a director of various companies in the Siem Industries Group. Mr Eriksrud is a Norwegian citizen.

Dod Fraser, 1950

Independent Director^{*1}

Mr Fraser joined the Board of Directors of Subsea 7 S.A. in December 2009. Mr Fraser is President of Sackett Partners, a consulting company, and he is a member of various corporate boards. Mr Fraser served as a Managing Director and Group Executive with Chase Manhattan Bank, now JP Morgan Chase, leading the global oil and gas group from 1995 until 2000. Until 1995 he was a General Partner of Lazard Frères & Co. Mr Fraser has been a trustee of Resources for the Future, a Washington-based environmental policy think-tank. He is a graduate of Princeton University. Mr Fraser is a Board member of Rayonier Inc. as well as OCI GP LLC, which is the general partner of OCI Partners LP, and also Fleet Topco Limited, the private holding company of Argus Media Limited. Mr Fraser is a US citizen.

Robert Long, 1946

Independent Director^{*1,3}

Mr Long joined the Board of Directors of Subsea 7 S.A. in January 2011. Mr Long served as Chief Executive Officer and a member of the Board of Directors of Transocean Ltd. from October 2002 until his retirement in February 2010. Mr Long served as President from 2001 to 2006, Chief Financial Officer from 1996 to 2001 and Senior VP of Transocean from May 1990 until the merger with Sedco Forex in 2000, 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 he served five years in the Naval Nuclear Power Programme before joining SONAT Inc., the parent company of The Offshore Company (which subsequently became Transocean Ltd.), in 1975. Mr Long has no other external appointments to public companies. Mr Long is a US citizen.

Allen Stevens, 1943

Independent Director^{*2,3}

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

Independent Directors * As used above, 'independence' is defined as per the rules and codes of corporate governance of the Oslo Børs on which Subsea 7 S.A. is listed, which the Board must satisfy, in particular the Norwegian Code of Practice for Corporate Governance.

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. There will be four Directors standing for re-election at the 2017 Annual General Meeting: Mr Kristian Siem, Mr Dod Fraser, Mr Robert Long and Mr Allen Stevens. The current term of the remaining Directors, Sir Peter Mason KBE, Mr Jean Cahuzac and Mr Eystein Eriksrud, will expire in 2018. Under the Company's Articles of Incorporation, the Board must consist of not fewer than three Directors.

Committee membership

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

EXECUTIVE MANAGEMENT TEAM

Jean Cahuzac, 1954 Chief Executive Officer

Jean Cahuzac has been Chief Executive Officer of Subsea 7 since April 2008 and became an Executive member of the Board of Subsea 7 S.A. in May 2008. Jean's full biography is included under Board of Directors on the previous page.

John Evans, 1963 Chief Operating Officer

John Evans has been Chief Operating Officer of Subsea 7 since July 2005. John started his career in the oil and gas engineering and contracting sector in 1986, working with Kellogg Brown & Root (KBR). During 18 years with KBR he gained a successful record in general management, commercial and operational roles in the offshore oil and gas industry. Prior to joining Subsea 7, between 2002 and mid-2005, John was Chief Operating Officer for KBR's Defence and Infrastructure business in Europe and Africa. John has a Bachelor of Engineering degree in Mechanical Engineering from Cardiff University, is a Chartered Mechanical and Marine Engineer and a Chartered Director. John Evans is a British citizen.

Nathalie Louys, 1963 General Counsel

Nathalie Louys has been General Counsel of Subsea 7 since April 2012. Nathalie began her legal career in 1986, working with Saint-Gobain and Eurotunnel, gaining extensive legal experience across a number of industries. In 1996 she joined Technip, based in Paris, progressing to the role of Vice President Legal – Offshore. In 2006 Nathalie joined Subsea 7 and subsequently worked in a number of senior corporate and operational legal roles. Prior to her current appointment Nathalie was Vice President Legal – Commercial. Nathalie is admitted to the Paris Bar and has legal qualifications from University Paris I – Panthéon Sorbonne and Paris XI in France and the University of Kent in the UK. Nathalie Louys is a Belgian citizen.

Øyvind Mikaelson, 1963 Executive Vice President – Commercial

Øyvind Mikaelson was appointed Executive Vice President Commercial in June 2016. Øyvind began his career in the oil and gas industry with Kvaerner Rosenberg A/S in 1988. He then moved to Norske Shell before joining Subsea 7 in 1992 where he held a variety of positions until he was appointed Vice President Subsea Construction product line in 2001, based in Aberdeen. In 2003, Øyvind was appointed Vice President of the Northern Europe and Canada Region and, in 2009, Senior Vice President for Subsea 7 Asia and Middle East and Northern Europe and Canada. In 2011, he became Senior Vice President for the combined region of North Sea, Mediterranean and Canada. In January 2015 he became a member of the Executive Management Team as Executive Vice President Southern Hemisphere and Global Projects. Øyvind holds a Master of Science degree from the University of Trondheim in Norway. Øyvind Mikaelson is a Norwegian citizen.

Ricardo Rosa, 1956 Chief Financial Officer

Ricardo Rosa has been Chief Financial Officer of Subsea 7 since July 2012. Ricardo started his career in 1977 with Price Waterhouse in London and transferred in 1981 to Rio de Janeiro. In 1983 he joined Schlumberger where he held various financial positions within the Schlumberger Group, working in Paris, Jakarta, Rio de Janeiro, Caracas, Milan and London. In 2000 he joined Transocean as Vice President and Controller in Houston, subsequently becoming Senior Vice President for Asia Pacific and Middle East in Singapore and then for Europe and Africa, in Paris. Prior to joining Subsea 7, he was Transocean's Executive Vice President and CFO. Ricardo holds an MA in Modern Languages from Oxford University and is a member of the Institute of Chartered Accountants in England and Wales. Ricardo Rosa has dual British and Brazilian citizenship.

Keith Tipson, 1958 Executive Vice President – Human Resources

Keith Tipson has been Executive Vice President – Human Resources of Subsea 7 since November 2003. Keith began his career in the engineering and construction project sectors in 1980, working with the Dowty Group. In 1988 he moved to Alstom where he held a number of roles based in Belgium, France, Switzerland and the UK, including the positions of Human Resources Director for the Industrial Equipment Division, the International Network and the Steam and Hydro segments of the ABB Alstom Power joint venture. Prior to joining Subsea 7 he held the position of Senior Vice President Human Resources, Power Sector, based in Paris. Keith has a business degree from the University of West London. Keith Tipson is a British citizen.

Note

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

2016 CORPORATE GOVERNANCE REPORT

REGULATORY COMPLIANCE

This section sets out the arrangements the Board has put in place to help ensure that it fulfils its corporate governance obligations, including the application of the principles of the Norwegian Code of Practice for Corporate Governance.

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, being incorporated in Luxembourg in 1993 and acts as the holding company for all of the Group's entities.

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 laws and regulations with respect to corporate governance.

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

The Group's corporate governance policies and procedures are explained below, with reference to the principles of corporate governance as set out in the sections identified in the Norwegian Code of Practice for Corporate Governance dated 30 October 2014.

Articles of Incorporation – nature of the Group's Business

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 licences 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."

The full text of the Company's Articles of Incorporation, as amended, is available on Subsea 7's website: www.subsea7.com.

Business

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

The Group 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.

Through its i-Tech Services Business Unit, the Group offers the full spectrum of products and capabilities to deliver Life of Field services to its clients and provides ROVs and intervention tooling services to support exploration, production and drilling activities.

The Group also provides services in offshore wind farm installations, heavy lifting and decommissioning services, utilising the capability of Seaway Heavy Lifting, a company in which Subsea 7 has a 50% interest.

Further details of the Group's business are outlined in the 'Overview' and 'Strategy' sections on pages 2 to 16.

BOARD OF DIRECTORS

Kristian Siem
Chairman

Sir Peter Mason KBE
Senior Independent Director

Jean Cahuzac
Director

Eystein Eriksrud
Director

Dod Fraser
Independent Director

Robert Long
Independent Director

Allen Stevens
Independent Director

Corporate assembly and Board of Directors: composition and independence

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

The Board of Directors comprises seven Directors. The majority of the Directors were, during the financial year 2016, considered independent in accordance with the rules of the Oslo Børs on which Subsea 7 S.A. is listed and the independence criteria of the Norwegian Code of Practice for Corporate Governance.

Biographies of the individual Directors are detailed on page 18.

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

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

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

If there is a vacancy on the Board of Directors, the remaining Directors appointed at a general meeting have the right to appoint a replacement Director until the next meeting of shareholders who will be asked to confirm such appointment.

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 duly authorised shareholder, 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.

The Directors of the Board are encouraged to hold shares in the Company as the Board of Directors believes it promotes a common financial interest between the members of the Board of Directors and the shareholders of the Company. Details of the Directors' shareholdings are on page 95.

WORK OF THE BOARD OF DIRECTORS

The Board of Directors adheres to a Board Charter which sets out the instructions for the Board.

The Board of Directors' main responsibilities are:

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

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

2016 MEETING ATTENDANCE

	Board	Audit Committee ^(a)	Corporate Governance and Nominations Committee ^(a)	Compensation Committee
Kristian Siem	7/7		3/3	4/4
Sir Peter Mason KBE	7/7		3/3	
Jean Cahuzac	7/7			
Dod Fraser	7/7	6/6		
Robert Long	7/7	6/6		4/4
Allen Stevens	7/7		3/3	4/4
Eystein Eriksrud	7/7	6/6		

(a) Additionally, a joint session of the Audit Committee and the Corporate Governance and Nominations Committee was held on 29 February 2016 at which all members of both committees were present.

Responsibilities during the year

During the year, the Board of Directors sets a plan for its work for the following year, which includes a review of strategy, objectives and their implementation, the review and approval of the annual budget and the review and monitoring of the Group's current year financial performance. In 2017, the Board of Directors is scheduled to convene on seven 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 which are on page 19. The Executive Management Team has the collective duty to deliver Subsea 7's strategic, financial and other objectives, as well as to safeguard the Group's assets, organisation and reputation. The Board of Directors has internal regulations for its own operation and approves objectives for its own work, as well as the work of the Executive Management Team, with particular emphasis on clear internal allocation of responsibility and duties.

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

The performance and expertise of the Board of Directors are monitored and reviewed annually, including an evaluation of the composition of the Board of Directors and the manner in which its members function, both individually and as a collegiate body. In 2016 the evaluation of the work of the Board of Directors was facilitated by an external company and the results of the evaluation were shared with the Corporate Governance and Nominations Committee.

Risk management and internal control

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

The Group adopts internal controls appropriate to its business activities and geographical spread. The key components of the Group's system of internal control are described in the Risk Management section on pages 30 to 35. 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 meets with other senior management on a regular basis to discuss particular issues, including key operational and commercial risks, health and safety performance, and legal and financial matters.

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

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

COMMUNICATION WITH STAKEHOLDERS

Implementation and reporting on corporate governance

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

The Group's vision is:

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

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

In pursuit of the five Values, the Group has an Ethics Policy Statement and a Code of Conduct which reflect its commitment to clients, shareholders, employees and other stakeholders to conduct business legally and with integrity and honesty. The Ethics Policy Statement and the Code of Conduct were approved by the Board of Directors and were issued to all directors, officers and employees and are subject to periodic review and updating.

General meetings

The Articles of Incorporation provide that the Annual General Meeting (AGM) is held each year on the fourth Friday in June in Luxembourg. Subject to approval by the shareholders, the AGM can be held at an earlier date and this year it is proposed that it will be held on 12 April. An Extraordinary General Meeting (EGM) will also be held on 12 April. The notice of meeting and agenda documents for the AGM and EGM 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 and EGMs 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 as close as practicable to the date of the AGM and EGM, taking into account the differing deadlines for ADR and common share proxies. Subject to the procedures described in the Articles of Incorporation, all shareholders holding individually or collectively at least 10% of the issued shares have the right to submit proposals or draft resolutions. All shareholders on the register as at the record date will be eligible to attend in person, or vote by proxy, at the AGM and EGM.

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

There will be a separate vote for each candidate nominated for election to the Board of Directors. Details will be provided in the resolutions and supporting information distributed to the shareholders ahead of the AGM.

Under Luxembourg law, there are minimum quorum requirements for EGMs but no minimum quorum requirement for AGMs. Decisions will be validly made at the AGM regardless of the number of shares represented if approval is obtained from the majority of the votes of those shareholders that are present or represented.

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

At the AGM, the shareholders, inter alia, elect members of the Board of Directors for nominated terms of appointment, approve the Company's Annual Accounts, the Group's Annual Report and Consolidated Financial Statements, discharge the Directors from their duties for the financial year and approve the statutory auditor's appointment. In accordance with Luxembourg law and the Company's Articles of Incorporation the Chairman of the Board is elected by the Board of Directors based on their insight into who has the most suitable level of understanding of the Company to carry out the duties of the Chairman.

Equity and dividends

Shareholders' equity

Total shareholders' equity at 31 December 2016 was \$5.58 billion (2015: \$5.38 billion) which the Board of Directors believes 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. The return is to be achieved through a combination of dividend payments, share repurchases and an increase in the value of the Company's shares over time through disciplined investment in value-adding growth opportunities.

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

Equity mandates

At the extraordinary general meeting held on 27 November 2014, the Board of Directors' authority to approve the purchase of the Company's shares up to a maximum of 33,216,706 common shares (representing 10% of the issued common shares following the cancellation of 19,626,664 common shares authorised at the 27 November 2014 extraordinary general meeting), was granted until 26 November 2019. This authority is subject to certain purchase price conditions and is conditional on such purchases being made in open market transactions through the Oslo Børs, subject to certain limitations. The Board of Directors was also granted authority for a period ending on 26 May 2020 to cancel shares repurchased under such authorisation and to reduce the issued share capital through such cancellations.

An extraordinary general meeting was held on 17 April 2015 at which the Company's shareholders approved the restatement of the authorised share capital at \$900,000,000 with any authorised but unissued common shares lapsing on 4 June 2018. Additionally, the Board of Directors was authorised to issue new shares within the authorised unissued share capital. The Board of Directors was authorised to waive, suppress or limit existing shareholders' preferential subscription rights up to a maximum of 33,216,706 common shares (representing 10% of the issued common shares as at 17 April 2015). These authorisations were granted for a period of three years, expiring on 4 June 2018, to reduce inter alia the administrative burden of convening an extraordinary general meeting annually.

Equal treatment of shareholders and transactions with close associates

One class 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.

Share issues

The Board of Directors is authorised to suppress the pre-emptive rights of shareholders under certain circumstances and within the limits set forth previously. This is to allow flexibility to deal with matters deemed to be in the best interest of the Company.

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 the recommendation of the Norwegian Code of Practice for Corporate Governance that the justification for such waiver is noted in the Stock Exchange announcement relating to such a share issue.

Related party transactions

Any transactions between the Group and members of the Board of Directors, executive management or close associates are detailed in Note 34 'Related party transactions' to the Consolidated Financial Statements.

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

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

Freely negotiable shares

Subsea 7 S.A.'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.

NOMINATIONS COMMITTEE



COMMITTEE MEMBERS

Sir Peter Mason KBE
Committee Chairman

Kristian Siem

Allen Stevens

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

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

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

These governance guidelines include the following:

- How the Board of Directors is selected and compensated (for example, the size of the Board, Directors' compensation, qualifications independence, retirement and conflicts of interests).
 - How the Board of Directors functions (for example, procedures for Board meetings, agendas, committee structure and format and distribution of Board materials).
 - How the Board of Directors interacts with shareholders and management (for example, selection and evaluation of the CEO, succession planning, communications with shareholders and access to management).
6. Overseeing the annual evaluation of the Board of Directors' performance.
 7. Overseeing all aspects of Subsea 7's compliance and ethics programme. This will include a regular review of the structure of the compliance function, the scope of its activities and the effective implementation of the programme (including procedures for employees to raise concerns about breaches of the Code of Conduct and for such concerns to be investigated and remediated).
 8. Annually reviewing the Committee's own performance.

The Corporate Governance and Nominations Committee Charter is available on the Subsea 7 website: www.subsea7.com.

COMPENSATION COMMITTEE



COMMITTEE MEMBERS

Kristian Siem
Committee Chairman

Robert Long

Allen Stevens

The Compensation Committee's main responsibilities are:

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

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

Remuneration of the Board of Directors

The Company's Directors receive remuneration in accordance with their individual roles and committee membership, with the exception of the CEO whose remuneration is detailed in Note 34 '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. One non-executive Director (Sir Peter Mason) was previously awarded share options which he continues to hold. The remuneration of the Board of Directors is approved at the AGM annually as part of the Annual Report and Consolidated Financial Statements

and is disclosed in Note 34 'Related party transactions' to the Consolidated Financial Statements.

Directors are not permitted to undertake specific assignments for the Group unless these have 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 will help to attract, retain and motivate senior management to achieve the Group's strategic objectives and to enhance shareholder value. The Compensation Committee benchmarks executive remuneration against comparable companies and seeks to ensure that the Group offers rewards and incentives which are competitive with those offered by the Group's peers. The Compensation Committee also seeks to ensure that the remuneration policy is applied consistently across the Group and that remuneration is fair and transparent, whilst encouraging high performance.

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

Chief Executive Officer remuneration

The remuneration package of the CEO was determined by the Board of Directors on the recommendation of the Compensation Committee. The compensation of the CEO is reported in Note 34 '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 34 'Related party transactions' to the Consolidated Financial Statements.

Share ownership of Executive Management Team

Details of share options held and other interests in the share capital of the Company by the Executive Management Team are shown in Note 34 'Related party transactions' to the Consolidated Financial Statements.

Long-term incentive arrangements

The Group currently operates a single long-term incentive arrangement, the 2013 Long-term Incentive Plan (2013 LTIP), to reward and incentivise key management. There are also former schemes which are now closed to new awards. Full details of the 2013 LTIP are set out in Note 35 'Share-based payments' to the Consolidated Financial Statements.

AUDIT COMMITTEE



COMMITTEE MEMBERS

Dod Fraser
Committee Chairman

Eystein Eriksrud

Robert Long

The Audit Committee's main responsibilities include:

1. Monitoring the financial reporting process and submitting recommendations or proposals to ensure its integrity.
2. Monitoring the effectiveness of the Company's and the Group's internal controls, internal audit function, financial controls framework and, where applicable, risk management systems.
3. Monitoring the statutory audit of the Company's Annual Accounts and the Consolidated Financial Statements of the Group, in particular its performance, taking into account any findings and conclusions by the competent authority.
4. Reviewing the quarterly, half-yearly and annual financial statements of the Group before their approval by the Board of Directors.
5. Reviewing and monitoring the independence of the external auditor, in particular with respect to the appropriateness of the provision of additional non-audit services to the Company and the Group and putting in place procedures and making recommendations with respect to the selection and the appointment of the external auditor.
6. Reviewing the report from the external auditor on key matters arising from the Group statutory audit.
7. Dealing with complaints received directly or via management, including information received confidentially and anonymously, in relation to accounting, financial reporting, internal controls and external audit issues.
8. Reviewing the disclosure of transactions involving related parties.
9. Annually reviewing the Audit Committee's own performance.

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

The Audit Committee is responsible for ensuring that the Group has an independent and effective external and internal audit process. The Audit Committee supports the Board of Directors in the administration and exercise of its responsibility for supervisory oversight of financial reporting and internal control matters and to maintain appropriate relationships with the external auditor. Each of the Audit Committee members meets the independence requirements under Luxembourg law.

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

The Chairman of the Audit Committee is Dod Fraser, whose biography can be found on page 18. The Board of Directors has determined that Mr Fraser is the Audit Committee's financial expert and competent in accounting and audit practice with recent and relevant financial experience. The Audit Committee's Charter requires that the Audit Committee shall consist of not less than three Directors. The Audit Committee meets at least four times a year and its meetings are attended by representatives of the external auditor and by the head of the internal audit function.

Auditor

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

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

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

Take-overs

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

The Company has been notified of the following significant shareholders who control 5% or more of the voting rights of the Company:

	% ^(a)
Siem Industries Inc.	21.3%
Folketrygdfondet	8.9%

(a) Information is correct as at 31 December 2016.

Information and communications

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

The Company complies in all material respects with the Oslo Børs' Code of Practice for IR, which is available at www.oslobors.no/.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that, to the best of our knowledge, the Consolidated Financial Statements for the year ended 31 December 2016 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 2016 Annual Report and Consolidated Financial Statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties facing the Group.

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

Kristian Siem
Chairman

Jean Cahuzac
CEO and Director

1 March 2017

RISK MANAGEMENT

MANAGING RISKS AND UNCERTAINTIES

Effective risk management is fundamental to how the Group operates its business, delivers sustainable shareholder value and protects its reputation.

The Group's approach is to identify key risks at an early stage and develop actions to measure, monitor and mitigate their likelihood and impact. This approach is embedded throughout the Group and is an integral part of our day-to-day activities.

The SURF and Conventional Business Unit, which represents the majority of the Group's revenue, is generally contracted on a fixed-price basis and involves the engineering, procurement, installation and commissioning of offshore infrastructure on behalf of clients. Offshore systems can be large, highly complex and technologically rich solutions and the environment in which we operate can be harsh and challenging. The costs and margins realised on such projects can vary from the original estimated amounts because of a number of factors and could result in the Group achieving a reduced margin or loss on such projects. The Group assesses the risks involved in fixed-price contracts and uses the terms of the contracts to mitigate certain aspects of these risks. The i-Tech Services Business Unit has a less challenging risk profile; services are typically contracted on a day-rate basis. Renewables and Heavy Lifting, which is reported in the Corporate Business Unit, executes contracts both on a lump-sum and reimbursable basis. Most of Subsea 7's renewables and heavy lifting activity is undertaken in collaboration with Seaway Heavy Lifting, a joint venture in which Subsea 7 has a 50% ownership interest and is accounted for using the equity method.

The Group operates in a cyclical industry whose activity is strongly influenced by the current and forecast price of oil and gas. The Group's risk management processes assist the Group to respond to changes in activity levels and apply appropriate measures to adjust its cost base as far as practical whilst at the same time ensuring that an acceptable risk profile is maintained.

Roles and responsibilities

The Board of Directors has oversight of the Group's risk management activities and internal control processes. The CEO determines the level of risk which can then be taken by the Business Units and by region, country and functional management. This is managed through Group policies and delegated authority levels which provide the means by which risks are reviewed and then escalated to the appropriate management level within the Group up to and including the Board of Directors for review and approval.

The Executive Management Team is responsible for monitoring and managing operational and enterprise risk in pursuit of the Group's business objectives. It is responsible for designing and implementing appropriate systems and procedures for the identification and management of risks, while ensuring that within a given risk appetite, the business is able to optimise shareholder value.

Principal risks and uncertainties

Principal risks are those risks that, given the Group's current position, could materially threaten its business model, future performance, prospects, solvency, liquidity, reputation, or prevent the Group from delivering its strategic objectives. The Board of Directors treats such risks as principal risks. The means which the Group employs to mitigate or eliminate these risks are set out below.

Additional risks and uncertainties that the Group is unaware of, or that it currently deems immaterial, may in the future have a material adverse effect on the Group's reputation, operations, financial performance and position. However, the Board of Directors believes that the Group's risk management and internal control systems have assisted, and will continue to assist, the Group to identify and respond to such risks.

Market risks

Risk	Mitigation
<p>Economic</p> <p>The Group's business depends on the level of activity in the segments of the oil and gas industry in which it operates and, consequently, any significant change in the level, timing or nature of clients' expenditure plans could adversely impact the Group's order intake, financial performance and position. A rapid increase or decrease in demand for the Group's services could outpace the Group's ability to resize its capacity for service provision.</p>	<p>The Group collaborates closely with its clients to understand their future project and expenditure plans. It also seeks to diversify selectively into new markets, which allows the Group to leverage its resources and competencies, as well as into other geographies for its services. In addition, the Group has reviewed, adjusted and continues to adjust its capacity to reflect the current uncertainties in the market, whilst retaining and investing in capability.</p>
<p>Competition</p> <p>The Group faces competition to win contracts needed to assure a sustainable backlog of future work. This competition, combined with declining client demand, could result in pricing pressures, fewer contract awards and loss of market share, which would have an adverse impact on its financial performance and position.</p> <p>Furthermore, the competitive landscape has reacted to the lower oil price environment in the form of alliances and vertical and horizontal consolidation to achieve economies of scale and wider control of the value chain. Such initiatives could represent a threat to the Group's profile as a specialised offshore service provider.</p>	<p>The Group endeavours to reduce its exposure to competition by differentiating itself from competitors. The Group's experience and resources, in particular its people, versatile fleet and proprietary technology offerings, help it respond effectively to challenges from competitors.</p> <p>A further differentiator is the Group's ability to partner with clients and form alliances with other oilfield services companies to contribute to the early development stages of projects, as well as offer cost-effective and efficient technical solutions to its clients.</p>

Business environment risks

Risk	Mitigation
<p>Geographic</p> <p>The Group operates in several countries worldwide, each with specific political, economic and social characteristics which can give rise to various risks and uncertainties that can, on occasion, adversely impact project execution and financial performance, including but not limited to:</p> <ul style="list-style-type: none"> • Economic instability • Legal, fiscal and regulatory uncertainty and change • Sanctions and export controls • Civil or political unrest, including war • Regime change 	<p>Country or regional risks are identified and evaluated before and during Group operations in such markets. Appropriate risk responses are developed and implemented to mitigate the likelihood and impact of identified risks. The Group adopts a proactive and rigorous approach to assessing and mitigating these risks.</p>

<p>Technological innovation</p> <p>The Group's clients seek cost effective-solutions to develop oil and gas reserves in deep waters and challenging offshore environments. This may require the implementation of new technologies. Any failure by the Group to anticipate or respond appropriately to changing technology, market demands and client requirements could adversely affect the Group's ability to compete effectively for, and win, new work. Similarly, introducing technology which is insufficiently mature or unsatisfactorily implemented could also have an adverse impact.</p>	<p>The Group monitors industry trends and collaborates with clients to understand their technology requirements. This allows the Group to effectively invest in developing differentiated and cost effective technologies to meet current and anticipated client demand.</p> <p>In developing new technologies, the risks associated with selecting and pursuing appropriate technological solutions, technical completion, commercialisation and successful implementation are carefully considered and addressed through 'gate controls' operated by knowledgeable and experienced Subsea 7 personnel.</p>
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Organisation and management risks	
Risk	Mitigation
<p>People</p> <p>Failure to attract and retain suitably skilled and capable personnel could adversely impact the Group's ability to execute projects and its future growth prospects. Increased competition for skilled personnel could result in a lack of resources and/or increased compensation costs for the Group.</p>	<p>The Group utilises medium-term business projections to assess resource requirements which allows timely, corrective intervention to appropriately resource the organisation in terms of size, profile competency mix and location.</p> <p>The Group also monitors attrition by function and geography and has developed appropriate remuneration and incentive packages to help attract and retain key employees. Performance management and succession planning processes are in place to help develop staff and identify high-potential individuals for key roles in the business.</p>
<p>Compliance and ethics</p> <p>The Group's reputation and its ability to do business may be impaired by inappropriate behaviour by any of its employees, representatives 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, representatives or such other persons may take actions that breach the Group's Code of Conduct or applicable laws, including but not limited to anti-bribery and anti-corruption laws. Any such breach could result in monetary penalties, convictions, debarring and damage to its reputation and could therefore impact the Group's ability to do business.</p>	<p>The Group's Code of Conduct clearly sets out the behaviours expected of its employees and those who work with it. Mandatory e-learning courses are used to raise awareness of the Code of Conduct within the Group and encourage compliance, particularly in countries perceived to be at high risk of bribery and corrupt practices. The Group has policies, procedures and controls in place to support and implement the Code of Conduct and the Group's joint venture partners and suppliers are also expected to have equivalent policies and procedures in place. Appropriate due diligence is undertaken of all key suppliers, joint venture partners and representatives to ensure that they are aware of and understand the Group's Code of Conduct and its expectations.</p>
<p>Information technology and security</p> <p>The Group's operations depend on the availability and security of a number of key information technology (IT) systems. These systems could be disrupted or compromised by a general IT failure or cyber crime risks including but not limited to:</p> <ul style="list-style-type: none"> • Unauthorised system access • Malware (including computer viruses) • Theft and misappropriation of data and sensitive information • Targeted fraud attacks <p>Such breaches in IT security could adversely impact the Group's ability to operate and lead to financial loss, damaged reputation, loss of client and shareholder confidence and regulatory fines.</p>	<p>The Group recognises the increased incidence of cyber security threats and has recently reviewed its policies, procedures and defences to mitigate associated risks, engaging market-leading specialists where appropriate.</p> <p>The Group has a number of IT policies, including a policy on information security, designed to protect its systems and ensure their availability and integrity as well as combating attempted fraud. These policies are regularly reviewed to ensure they continue to address existing and emerging information security, cyber maritime and cyber crime risks.</p> <p>Internal e-learning courses are used to raise awareness among employees of IT security risks and of the Group's procedures to manage them.</p> <p>Furthermore, the Group maintains a programme of regular investment in new hardware, software and systems to ensure the integrity of IT security defences.</p>

Delivery and operational risks	
Risk	Mitigation
<p>Bidding</p> <p>The Group wins most of its work through a competitive tendering process. A significant proportion of the Group's work is undertaken by way of fixed-price contracts. Failure to understand and respond to operational and contractual risks and accurately estimate project costs could have an adverse impact on the Group's financial performance and position.</p>	<p>All bids are subject to the Group's estimating and tendering processes and authority levels. 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 contracting standards and market conditions. Before the tender is submitted, a formal review process is performed. Tenders are first reviewed at a region level where the technical, operational, legal and financial aspects of the proposal are considered in detail. Completion of the region review process requires the formal approval of the appropriate level of management. Dependent on the tender value, there is an escalating level of approval required. Tenders meeting specific financial and risk criteria are reviewed and approved by a Committee of the Board of Directors.</p>
<p>Realisation and renewal of backlog</p> <p>Delays, suspensions, cancellations and scope changes to awarded projects in backlog could materially impact the financial performance and position of the Group in current and future years.</p>	<p>The Group works to mitigate these risks through its contract terms, including, where possible, provision for cancellation fees or early termination payments.</p>
<p>Joint ventures</p> <p>The Group may, in certain instances, engage in a joint venture with selected partners to obtain the necessary expertise or local knowledge. A failure by a joint venture partner to perform to the standards required by the joint venture agreement could result in negative financial and reputational impact to the Group. In addition, the failure of a joint venture partner to meet its financial obligations could result in an adverse impact on the Group's financial performance and position.</p>	<p>The Group seeks to ensure that selected joint venture partners not only have the necessary expertise, local knowledge and suitable financial profile but are also able to meet the Group's health, safety, security, environmental and quality standards (HSSEQ) and its Code of Conduct obligations. The Group endeavours to establish appropriate governance and oversight mechanisms to monitor the performance of its joint ventures and joint venture partners in regards to the matters mentioned.</p>
<p>Project execution</p> <p>The Group executes complex projects and a failure to meet our clients' contractual requirements could have several adverse consequences, including contract disputes, non-agreed claims and cost overruns, which could adversely impact the Group's financial performance, position and reputation.</p> <p>For most contracts, the offshore execution phase, which generally involves the use of either single or multiple vessels, is usually the most hazardous as this phase is exposed, among other risks, to adverse weather conditions which can result in unforeseen delays to the project or damage to vessels and equipment or injury to those working offshore.</p>	<p>The Group assigns a project management team to every project. Every project is assessed using the Project Monthly Status Report review process. These reviews cover project progress, risk management, cost management, financial performance and sensitivity analysis. Detailed assessments of costs and revenues are estimated and reported upon, taking into account project performance, planning schedules, contract variations, claims, allowances and contingency analysis.</p> <p>The Group factors the risk of adverse weather conditions into the design of its vessels, equipment and procedures, as well as the training of its offshore workforce. It also works to mitigate potential adverse financial consequences when negotiating contractual terms with its clients.</p>
<p>Supply chain</p> <p>Failure of a key supplier could result in disruption to the Group's ability to complete a project in a timely manner. The resultant time delays could lead to increased and irrecoverable costs to the Group and the imposition of financial penalties by clients.</p>	<p>The financial profile and outlook of the Group's key suppliers is reviewed during the pre-qualification process for vendors and is considered prior to signing project-related contracts. If necessary, appropriate guarantees or performance-related bonds are requested from our key suppliers. In addition, the Group seeks to develop strong long-term relationships with high-quality and competent suppliers.</p>

Delivery and operational risks continued

Risk	Mitigation
<p>Health, safety, security, environmental and quality</p> <p>The Group's projects are complex and require the monitoring and management of health, safety, security, environmental and quality (HSSEQ) risks associated with them. A failure to manage these risks could expose our people and those who work with us to injury or harm and could result in significant commercial, legal and reputational damage.</p>	<p>Management at all levels is required to focus on HSSEQ issues, and actively motivate, influence and guide employees' individual and collective behaviour. The Group has an HSSEQ policy and detailed HSSEQ procedures designed to identify, assess and reduce such risks while ensuring compliance with relevant laws and regulations. The policy and procedures are subject to review, monitoring and certification by an independent third party, Det Norske Veritas.</p>
<p>Fleet management</p> <p>The Group has a fleet of vessels which are essential to the successful delivery of its projects. These vessels operate in a number of regions which are subject to political, fiscal, legal and regulatory risks. Failure to manage such risks could lead to an adverse impact to financial performance and position.</p> <p>Vessel availability could also be negatively impacted by delays to vessel construction, completion of maintenance, vessel upgrading and dry-docking activities.</p> <p>In extreme circumstances, the non-availability of a vessel through loss or irreparable damage could compromise the Group's ability to meet its contractual obligations.</p> <p>To maintain the competitiveness of the fleet, the Group from time to time makes significant investments in the construction or acquisition of new vessels. If the anticipated demand for those vessels does not materialise, such investments may not generate the intended financial return.</p>	<p>The Group considers carefully the political, fiscal, legal and regulatory risks associated with the deployment of its vessels into regions in which it operates, and monitors developments to ensure it is able to respond appropriately.</p> <p>Vessel construction, maintenance, upgrading and dry-docking activities are subject to detailed planning and controls are deployed to mitigate the risk of completion delays.</p> <p>The design and operational capabilities of a vessel are carefully assessed before its deployment to a particular project and are then closely monitored during the project's execution. The impact of potential non-availability of a vessel is mitigated by both the size and flexibility of the Group's fleet and its ability to access the vessel charter market.</p> <p>Before initiating the construction or acquisition of new vessels, the Group conducts detailed analyses of the potential market and seeks to ensure that the vessels' technical specifications and projected capital and operating costs are appropriate for the anticipated market.</p> <p>In addition, the Group actively pursues long-term contracts with clients to underpin the investment in new vessels with a view to generating the intended financial returns.</p>

Financial risks

Risk	Mitigation
<p>Revenue recognition</p> <p>Individual period performance may be significantly affected by the timing of contract completion, at which point the final outcome of a project may be fully assessed. Until then, the Group, in common with other companies in the sector, uses the percentage-of-completion method of accounting for revenue and margin recognition. This method relies on the Group's ability to estimate future costs in an accurate manner over the remaining life of a project. As projects may take a number of years to execute, this process requires a significant degree of judgement, with changes to estimates or unexpected costs or recoveries potentially resulting in significant fluctuations in revenue and profitability.</p>	<p>Project performance is monitored by means of Project Monthly Status Reports which record actual costs of work performed and estimated cost to complete together with the likely outcome in terms of profitability of each project. These PMSRs are subject to rigorous review and challenge at all key levels of management within the Group. Note 4 "Critical accounting judgements and key sources of estimation uncertainty" to the consolidated financial statements provides more detail on the Group's approach to revenue recognition on long-term contracts.</p>

Financial risks continued	
Risk	Mitigation
<p>Cash flow and liquidity</p> <p>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.</p> <p>The availability of short-term and long-term external financing is required to help meet the Group's 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.</p>	<p>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's cash position, access to liquidity and debt leverage are monitored closely by both the Executive Management Team and the Board of Directors.</p>

Internal control

The Board of Directors is responsible for oversight of the Group's system of internal controls and for reviewing its effectiveness. The Board of Directors recognises that any system of internal controls can only provide reasonable and not absolute assurance that material financial misstatement and/or fraud will be detected or that the risk of failure to achieve business objectives is eliminated.

The Group's systems of internal controls operate through a number of processes. The more significant include:

- Delegated authority level matrices with certain matters being reserved by the Board of Directors
- Annual review of the strategy, plans and budgets of individual Business Units to identify the key risks to the achievement of the Group's objectives
- Monthly financial and operational performance reviews against budget
- Individual tender and contract reviews at various levels throughout the Group
- Capital expenditure and investment reviews and authorisation
- Regular reviews and reporting on the effectiveness of the Group's Health, Safety, Security, Environmental and Quality (HSSEQ) processes
- Group Treasury policies
- The Group's whistleblowing policy, which allows individuals to raise concerns in confidence about potential breaches of the Code of Conduct

The Group's internal audit function, which reports directly to the Audit Committee, performs independent reviews of key business financial processes and controls and other areas considered to be of high business risk. The Audit Committee annually reviews and approves the internal audit plan and receives regular updates on internal audit's findings and the actions taken by management to address them.

FINANCIAL REVIEW

Financial highlights

Revenue for 2016 was \$3.6 billion compared to \$4.8 billion for the prior year, reflecting lower levels of activity resulting from the challenging industry conditions. Total vessel utilisation was 66% compared with 72% in 2015. Net operating income was \$521 million after recognising a goodwill impairment charge of \$90 million, impairment charges related to property, plant and equipment of \$158 million and a restructuring charge of \$97 million related to the Group's programme of cost reduction measures. Net operating income excluding the goodwill impairment charge was \$611 million, which was driven by cost discipline, good operational performance and successful project completions.

The goodwill impairment charge of \$90 million arose as a result of the Group's annual review of the carrying amount of goodwill. This non-cash charge, which had no tax impact, affected the SURF and Conventional Business Unit and reflected a downward revision of forecast activity levels in Asia Pacific.

The Group generated net income of \$418 million, equivalent to diluted earnings per share of \$1.27. Net income excluding the goodwill impairment charge was \$509 million, equivalent to Adjusted diluted earnings per share of \$1.54.

As at 31 December 2016, the Group's backlog totalled \$5.7 billion, a decrease of \$0.4 billion compared to 31 December 2015. During the year, order intake totalled \$3.4 billion and awards included the West Nile Delta Phase Two project, offshore Egypt, and the Beatrice wind farm installation project, offshore UK, which is being executed in collaboration with Seaway Heavy Lifting, a joint venture company in which Subsea 7 currently has a 50% ownership interest.

In January 2017, Subsea 7 made an offer to acquire the remaining 50% of the Seaway Heavy Lifting joint venture to strategically strengthen and grow its position in the heavy lifting, decommissioning and renewable sectors of the offshore energy market.

During 2016, the Group continued with its new-build vessel programme focused on fleet renewal and enhancement. The PLSV, *Seven Sun*, joined the fleet and construction progressed on *Seven Kestrel*, a diving support vessel for operation in the North Sea, *Seven Arctic*, a heavy construction vessel and the PLSV, *Seven Cruzeiro*, linked to a long-term contract with Petrobras. The new-build programme was completed in early 2017 with the delivery of the last three vessels. *Seven Cruzeiro* commenced its long-term contract with Petrobras in January 2017 and *Seven Arctic* and *Seven Kestrel* are due to commence operations in the first half of 2017.

The Group held cash and cash equivalents of \$1,676 million at 31 December 2016 compared with \$947 million at 31 December 2015, and had total borrowings of \$427 million compared with \$524 million at 31 December 2015.

For the year ended (in \$ millions, except Adjusted EBITDA margin, share and per share data)	2016 31 Dec	2015 31 Dec
Revenue	3,567	4,758
Adjusted EBITDA ^(a) (unaudited)	1,142	1,217
Adjusted EBITDA margin ^(a) (unaudited)	32%	26%
Net operating income excluding goodwill impairment charge	611	665
Goodwill impairment charge	(90)	(521)
Net operating income	521	144
Net income excluding goodwill impairment charge	509	484
Net income/(loss)	418	(37)
Earnings per share – in \$ per share		
Basic	1.34	(0.05)
Diluted ^(b)	1.27	(0.05)
Adjusted diluted ^(b)	1.54	1.45

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Backlog (unaudited)	5,693	6,110
Cash and cash equivalents	1,676	947
Borrowings	427	524

(a) For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin please refer to page 105 of the Consolidated Financial Statements.

(b) For explanation and a reconciliation of diluted and Adjusted diluted earnings per share please refer to Note 11 'Earnings per share' of the Consolidated Financial Statements.

Revenue

Revenue for 2016 was \$3.6 billion compared with \$4.8 billion in 2015. The decrease reflected lower activity levels in the SURF and Conventional and i-Tech Services Business Units partially offset by an increase in the Corporate Business Unit which includes Renewables and Heavy Lifting.

Adjusted EBITDA

Adjusted EBITDA and Adjusted EBITDA margin were \$1.1 billion and 32% respectively compared to \$1.2 billion and 26% in 2015. Adjusted EBITDA included a restructuring charge of \$97 million in 2016 compared to \$136 million in 2015 related to the Group's programme of cost reduction measures, primarily focused on a resizing of the fleet and workforce. Adjusted EBITDA margin in 2016 of 32% was driven by cost discipline, operational performance and successful project completions.

Net operating income

Net operating income was \$521 million for the year ended 31 December 2016, compared to net operating income of \$144 million in 2015. Net operating income included a goodwill impairment charge of \$90 million compared to \$521 million in 2015. Net operating income, excluding the goodwill impairment charge, was \$611 million, a decrease of \$53 million or 8% compared to 2015 and was mainly due to:

- significantly lower activity levels in the SURF and Conventional and i-Tech Services Business Units;
- impairment charges of \$158 million related to property, plant and equipment compared to \$137 million of similar charges recognised in 2015; and
- a decreased contribution from the Seaway Heavy Lifting joint venture compared to 2015 due to the phasing of projects partially offset by:
 - a reduced restructuring charge of \$97 million compared to \$136 million in 2015, associated with the Group's cost reduction and resizing programme, of which \$58 million related to operating expenses and \$39 million related to administrative expenses; and
 - reduced administrative expenses resulting mainly from lower personnel costs.

Net income

Net income was \$418 million for the year ended 31 December 2016, compared to a net loss of \$37 million for 2015. The improvement in net income was primarily due to:

- an increase in net operating income to \$521 million compared with \$144 million in 2015, which reflected a reduction of \$431 million in the goodwill impairment charge in 2016 compared to 2015; and
- a decrease of \$64 million in the tax charge compared to 2015.

Excluding the impact of the goodwill impairment charge, the effective tax rate for 2016 was 24% compared to 31% in 2015, the reduction being primarily due to the geographic mix of operations in the year and the statutory tax rates applicable to the profits arising thereon.

Earnings per share

Diluted earnings per share was \$1.27 for 2016 compared to a loss per share of \$0.05 in 2015, calculated using a weighted average number of shares of 343 million and 326 million respectively. Adjusted diluted earnings per share, which excludes the impact of the goodwill impairment charge, was \$1.54 compared to \$1.45 for 2015.

Cash and cash equivalents

Cash and cash equivalents at 31 December 2016 was \$1.7 billion compared with \$947 million at 31 December 2015. The increase in cash and cash equivalents was mainly attributable to:

- \$1.0 billion of net cash generated from operating activities;
- \$70 million repayment of a loan made by the Group to a joint venture; and
- \$28 million dividends received from associates and joint ventures

partially offset by:

- purchases of property, plant and equipment of \$300 million, mainly related to the Group's new-build vessel programme; and
- \$106 million related to the repurchase of \$113 million (par value) of the \$700 million 1.00% convertible bonds due to mature in October 2017.

Allocation of net income

The net income for the year of \$418 million (2015: net loss of \$37 million) was transferred to equity, of which \$436 million (2015: net loss of \$17 million) was recognised in retained earnings attributable to shareholders of the parent company and a net loss of \$18 million in non-controlling interests (2015: net loss of \$20 million).

Business Unit highlights**For the year ended 31 December 2016**

(in \$ millions)	SURF and Conventional	i-Tech Services	Corporate	Total
<i>Selected financial information:</i>				
Revenue	3,011.3	377.4	178.0	3,566.7
Net operating income/(loss) excluding goodwill impairment charge	717.1	38.0	(143.7)	611.4
Impairment of goodwill	(90.4)	–	–	(90.4)
Net operating income/(loss) including goodwill impairment	626.7	38.0	(143.7)	521.0

For the year ended 31 December 2015

(in \$ millions)	SURF and Conventional Re-presented ^(a)	i-Tech Services Re-presented ^(a)	Corporate Re-presented ^(a)	Total Re-presented ^(a)
<i>Selected financial information:</i>				
Revenue ^(a)	4,282.6	446.3	29.2	4,758.1
Net operating income/(loss) excluding goodwill impairment charge	840.5	21.7	(197.5)	664.7
Impairment of goodwill	(520.9)	–	–	(520.9)
Net operating income/(loss) including goodwill impairment	319.6	21.7	(197.5)	143.8

(a) Re-presented due to the reorganisation of the operating segments from 1 July 2016.

SURF and Conventional

Revenue was \$3.0 billion, a decrease of \$1.3 billion or 30% compared to 2015.

During the year, work progressed on the West Nile Delta Phase One project, offshore Egypt, the Aasta Hansteen and Maria projects, offshore Norway, the Catcher project, offshore UK, and the Stampede project in the US Gulf of Mexico. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras. The TEN project, offshore Ghana, the 2016 workscope of the Martin Linge project, offshore Norway, the Montrose project, offshore UK, the Lianzi Topside project, offshore Angola and the Persephone Work Pack 2, offshore Australia were substantially completed during the year.

For the year ended 31 December 2016, net operating income was \$627 million compared to \$320 million in the prior year. The net operating income included a goodwill impairment charge of \$90 million in 2016 and \$521 million in 2015. Net operating income excluding the goodwill impairment charge was \$717 million in 2016, a decrease of \$123 million or 15% compared to 2015. This was partially due to impairment charges of \$49 million related to property, plant and equipment recognised in 2016, compared to similar charges of \$8 million in 2015.

i-Tech Services

Revenue was \$377 million, a decrease of \$69 million or 15% compared to 2015. Inspection, Maintenance and Repair (IMR) activity in the year reduced slightly compared to 2015 with increased activity in Australia and Gulf of Mexico largely offset by decreased activity in Norway and the UK. ROV support activity decreased compared to 2015, particularly in Brazil, due to a decrease in active drill rigs.

Net operating income was \$38 million, compared to \$22 million in 2015. Net operating income in 2016 included impairment charges of \$9 million related to property, plant and equipment.

Corporate

Revenue was \$178 million, an increase of \$149 million compared to 2015. Revenues mainly related to the Beatrice wind farm installation project.

Net operating loss was \$144 million compared with a net operating loss of \$198 million in 2015. The decrease in net operating loss was mainly due to a lower restructuring charge, which totalled \$97 million in 2016, compared with \$136 million in 2015, and lower impairment charges totalling \$100 million related to property, plant and equipment compared to \$129 million recognised in 2015. This was partially offset by a reduced contribution from the Seaway Heavy Lifting joint venture.

Backlog

At 31 December 2016 backlog was \$5.7 billion, a decrease of \$0.4 billion compared with 31 December 2015. Order intake, comprising new awards and project escalations, totalling \$3.4 billion was recorded in the year. New awards included the Beatrice wind farm installation project for Beatrice Offshore Windfarm Limited, offshore UK, two awards by BP for the West Nile Delta Phase Two project and the Atoll Field Development by Pharaonic Petroleum Company, all offshore Egypt. In addition, an extension of the Subsea Construction, Inspection, Repair and Maintenance contract for BP and renewals of existing frame agreements including the USC contract for Shell and DSVi operations, all offshore UK, were awarded.

\$4.1 billion of the backlog at 31 December 2016 related to the SURF and Conventional Business Unit, (which included \$1.8 billion related to long-term day-rate contracts for PLSV's in Brazil), \$0.5 billion related to the i-Tech Services Business Unit and \$1.1 billion related to the Corporate Business Unit (including Renewables and Heavy Lifting). \$3.3 billion of this backlog is expected to be executed in 2017, \$1.5 billion in 2018 and \$0.9 billion in 2019 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Balance sheet

Goodwill

As at 31 December 2016 goodwill was \$628 million, a net reduction of \$139 million compared with the prior year. Goodwill of \$15 million was recognised in connection with the acquisition of Swagelining Limited and Pioneer Lining Technology Limited and an impairment charge of \$90 million was recognised within the SURF and Conventional Business Unit, following a downward revision of forecast activity levels, driven by challenging market conditions in the Asia Pacific region.

Property, plant and equipment

Additions to property, plant and equipment totalled \$267 million during 2016 (2015: \$671 million). Additions included \$181 million related to the construction of five new-build vessels; *Seven Sun*, *Seven Rio*, *Seven Cruzeiro*, *Seven Arctic* and *Seven Kestrel*. The remaining capital expenditure mainly related to dry-dockings and the construction of new office facilities in London.

Impairment charges totalling \$158 million were recognised in the year (2015: \$137 million), of which \$101 million related to vessels and vessel related equipment; \$21 million was recognised in respect of operating equipment and \$36 million was related to buildings and leasehold improvements. The impairments arose as a result of the continued lower levels of market activity as clients continue to minimise expenditure in an environment of low and uncertain oil and gas prices.

Interest in associates and joint ventures

There were no significant changes in the Group's interests in associates and joint ventures during 2016. On 17 January 2017 an indirect subsidiary of Subsea 7 S.A. made an offer to acquire the 50% interest in Seaway Heavy Lifting Limited currently owned by K&S Baltic Offshore (Cyprus) Limited. The offer includes an initial consideration of \$279 million on completion and deferred consideration of up to \$40 million to be paid by the end of the first quarter 2021 on condition that certain performance targets are met. The terms of the offer are binding on Subsea 7 until 1 July 2017.

Borrowings

Total borrowings at 31 December 2016 were \$427 million compared with \$524 million at 31 December 2015. In 2016 the Group repurchased \$113 million (par value) of the 2017 1.00% convertible bonds for \$106 million in cash (an average 94.1% of the par value). Each repurchase price was treated as payment for the liability and equity components of the bonds. This resulted in a gain on repurchase of the liability component of \$3 million recognised within finance income in the Consolidated Income Statement. These bonds have not been cancelled and continue to be held by the Group and are available for reissue at a future date.

Facilities

As at 31 December 2016 the Group had total facilities of \$1,051 million, all of which were unutilised. This included the \$750 million multi-currency credit and guarantee facility, of which \$94 million matures in September 2019 and \$656 million matures in September 2021, and a senior term loan facility secured on two vessels under construction. During January 2017 \$301 million was drawn down under the senior term loan facility. 90% of this facility is provided by an Export Credit Agency (ECA) and 10% by two banks.

Share repurchase plan

During 2016, the Group repurchased nil (2015: 815,578) shares under the July 2014 share repurchase programme. As at 31 December 2016 cumulatively 5,272,656 shares had been repurchased under the July 2014 share repurchase programme for a total consideration of \$57 million.

Shareholders

The 20 largest shareholders as at 31 December 2016, and their beneficial ownership^(a) as a percentage of the total fully paid and issued common shares of the Company were:

	%
Siem Industries, Inc.	21.3
Folketrygdfondet	8.9
DNB Asset Management AS	3.7
BlackRock Institutional Trust Company, N.A.	3.4
Orbis Investment Management Ltd.	3.2
INVESCO Asset Management Deutschland GmbH	2.4
JPMorgan Asset Management U.K. Limited	2.4
Acadian Asset Management LLC	2.1
Danske Capital (Norway)	2.0
Storebrand Kapitalforvaltning AS	1.8
SAFE Investment Company Limited	1.8
Nordea Funds Oy	1.7
The Vanguard Group, Inc.	1.6
Templeton Investment Counsel, LLC	1.6
Robotti & Company Advisors, LLC	1.5
KLP Forsikring	1.4
INVESCO Asset Management Limited	1.1
Schroder Investment Management Limited (SIM)	1.0
Investec Asset Management Ltd.	0.9
Statoil Kapitalforvaltning ASA	0.9

(a) The data is provided by NASDAQ OMX and is obtained through an analysis of beneficial ownership and fund manager information. This is provided in response to disclosure of ownership notices issued to all custodians on the Subsea 7 VPS share register. Whilst every reasonable effort has been made to verify the data, there may be fluctuations as a result of such events as stock lending or other non-institutional stock movements, and neither Subsea 7 nor NASDAQ OMX can guarantee the accuracy of the analysis.

Cash and cash equivalents

Movements in cash and cash equivalents are summarised as follows:

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Cash and cash equivalents at the beginning of the year	947	573
Net cash generated from operating activities	1,046	1,049
Net cash used in investing activities	(199)	(554)
Net cash used in financing activities	(121)	(96)
Effect of exchange rate changes on cash and cash equivalents	3	(25)
Cash and cash equivalents at the end of the year	1,676	947

Net cash generated from operating activities was \$1.0 billion (2015: \$1.0 billion) which included a increase in net operating liabilities of \$40 million (2015: increase in net operating liabilities of \$64 million).

Net cash used in investing activities was \$199 million compared with \$554 million used in 2015. This was mainly attributable to expenditure on property, plant and equipment of \$300 million (2015: \$639 million) and \$18 million related to the acquisition of a business (net of cash and borrowings acquired) completed during 2016. This was partially offset by a loan repayment received from a joint venture of \$70 million and dividends received from associates and joint ventures of \$28 million.

Net cash used in financing activities was \$121 million (2015: \$96 million), which was mainly driven by the repurchase of \$113 million (par value) of the 2017 1.00% convertible bonds for \$106 million in cash.

New-build vessel programme

During 2016 construction continued on the new-build vessel programme. This was completed in early 2017 with the delivery of the final three vessels. *Seven Cruzeiro* commenced its long-term contract with the client in January 2017 and *Seven Arctic* and *Seven Kestrel* are due to commence operations in the first half of 2017.

Liquidity

As at 31 December 2016, the Group had sufficient liquidity to meet its expected funding requirements for the next twelve months. The Group had cash and cash equivalents of \$1,676 million and unutilised committed credit and guarantee facilities of \$1,051 million, all of which was available for cash drawings. The Group monitors its future business opportunities on a continuous basis and actively reviews its credit and guarantee facilities and its long-term funding requirements.

Cash management constraints

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

Covenant compliance

The Group's credit facilities contain various financial covenants including, but not limited to, a minimum level of tangible net worth, a maximum level of net debt to earnings before interest, taxes, depreciation and amortisation, a maximum level of total financial debt to tangible net worth, a minimum level of cash and cash equivalents and an interest cover covenant. During the year all covenants were met. The Group expects to be able to comply with all financial covenants during 2017.

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 banking and borrowing facilities in place, the forecast cash flows for the Group and the backlog position as at 31 December 2016.

Outlook

Revenue is expected to be broadly in line with 2016, supported by current backlog. Adjusted EBITDA percentage margin is expected to be significantly lower than that achieved in 2016. This reflects lower margins from projects tendered during the market downturn, fewer large projects in the final stages of execution and a higher proportion of procurement costs.

Subsea 7 has responded to the oil and gas market downturn with cost reductions, technological innovation, industry alliances and client partnerships to deliver more efficient solutions for our clients and position itself for long-term success. We expect a gradual recovery of oil and gas field development activity. The oil and gas market has achieved a degree of stability in recent months and there are indications that project sanctions will increase. Assuming the oil price improvement is sustained and the cost reductions identified by the industry are consistently achieved, there is cause to believe that the number of SURF project awards to the market could increase within the next 12 months.

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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 14 April 2016, we have audited the accompanying Consolidated Financial Statements of Subsea 7 S.A., which comprise the Consolidated Balance Sheet as at 31 December 2016, the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the Consolidated Financial Statements

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

Responsibility of the réviseur d'entreprises agréé

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

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

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

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of Subsea 7 S.A. as of 31 December 2016, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated Directors' report, which is the responsibility of the Board of Directors, is consistent with the Consolidated Financial Statements and has been prepared in accordance with applicable legal requirements.

The corporate governance report, which is included in the Annual Report, contains the information required by the law with respect to the corporate governance statement.

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Thierry Bertrand
Luxembourg, 1 March 2017

CONSOLIDATED INCOME STATEMENT

For the year ended (in \$ millions, except per share data)	Notes	2016 31 Dec	2015 31 Dec
Revenue		3,566.7	4,758.1
Operating expenses	6	(2,759.6)	(3,851.7)
Gross profit		807.1	906.4
Administrative expenses	6	(242.1)	(305.1)
Impairment of goodwill	13	(90.4)	(520.9)
Share of net income of associates and joint ventures	16	46.4	63.4
Net operating income		521.0	143.8
Finance income	8	17.9	16.7
Other gains and losses	7	44.9	32.6
Finance costs	8	(7.1)	(8.2)
Income before taxes		576.7	184.9
Taxation	9	(158.4)	(221.9)
Net income/(loss)		418.3	(37.0)
Net income/(loss) attributable to:			
Shareholders of the parent company		436.0	(17.0)
Non-controlling interests	25	(17.7)	(20.0)
		418.3	(37.0)
<hr/>			
Earnings per share	Notes	\$ per share	\$ per share
Basic	11	1.34	(0.05)
Diluted ^(a)	11	1.27	(0.05)

(a) For explanation and a reconciliation of diluted earnings per share please refer to Note 11 'Earnings per share' to the Consolidated Financial Statements included.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended (in \$ millions)	Notes	2016 31 Dec	2015 31 Dec
Net income/(loss)		418.3	(37.0)
<i>Items that may be reclassified to the income statement in subsequent periods:</i>			
Foreign currency translation losses		(232.4)	(215.7)
Cash flow hedges:			
Net fair value gains/(losses) arising	33	7.3	(4.1)
Reclassification adjustments for amounts recognised in the Consolidated Income Statement	33	(10.0)	15.5
Adjustments for amounts transferred to the initial carrying amounts of hedged items	33	–	(0.1)
Share of other comprehensive income of associates and joint ventures	16	2.2	7.3
Tax relating to components of other comprehensive income which may be reclassified	9	0.8	21.3
<i>Items that will not be reclassified to the income statement in subsequent periods:</i>			
Remeasurement gains on defined benefit pension schemes	36	1.0	1.2
Tax relating to remeasurement gains on defined benefit pension schemes	9	(0.5)	(0.3)
Other comprehensive loss		(231.6)	(174.9)
Total comprehensive income/(loss)		186.7	(211.9)
Total comprehensive income/(loss) attributable to:			
Shareholders of the parent company		200.2	(209.2)
Non-controlling interests		(13.5)	(2.7)
		186.7	(211.9)

CONSOLIDATED BALANCE SHEET

As at (in \$ millions)	Notes	2016 31 Dec	2015 31 Dec
Assets			
Non-current assets			
Goodwill	13	627.7	766.8
Intangible assets	14	34.9	18.6
Property, plant and equipment	15	4,123.5	4,559.0
Interest in associates and joint ventures	16	378.5	368.5
Advances and receivables	17	34.4	100.7
Derivative financial instruments	33	25.2	4.4
Retirement benefit assets	36	0.3	0.8
Deferred tax assets	9	13.2	9.1
		5,237.7	5,827.9
Current assets			
Inventories	18	39.0	46.1
Trade and other receivables	19	499.6	584.1
Derivative financial instruments	33	53.2	18.2
Assets classified as held for sale		0.7	0.6
Construction contracts – assets	21	79.7	278.1
Other accrued income and prepaid expenses	20	216.7	152.4
Cash and cash equivalents	22	1,676.4	946.8
		2,565.3	2,026.3
Total assets		7,803.0	7,854.2
Equity			
Issued share capital	23	654.7	654.7
Treasury shares	24	(31.5)	(31.7)
Paid in surplus		3,227.5	3,223.0
Equity reserve	27	50.2	63.2
Translation reserve		(689.1)	(452.8)
Other reserves		(40.2)	(55.8)
Retained earnings		2,411.9	1,976.5
Equity attributable to shareholders of the parent company		5,583.5	5,377.1
Non-controlling interests	25	(46.9)	(30.9)
Total equity		5,536.6	5,346.2
Liabilities			
Non-current liabilities			
Non-current portion of borrowings	26	–	523.9
Retirement benefit obligations	36	9.9	13.3
Deferred tax liabilities	9	60.7	63.4
Provisions	30	61.9	47.0
Contingent liability recognised	31	7.5	4.0
Derivative financial instruments	33	12.2	9.4
Other non-current liabilities	28	51.6	73.1
		203.8	734.1
Current liabilities			
Trade and other liabilities	29	823.7	1,123.5
Derivative financial instruments	33	40.7	12.2
Current tax liabilities		120.0	76.7
Current portion of borrowings	26	427.3	–
Provisions	30	108.6	92.6
Construction contracts – liabilities	21	536.2	458.9
Deferred revenue	37	6.1	10.0
		2,062.6	1,773.9
Total liabilities		2,266.4	2,508.0
Total equity and liabilities		7,803.0	7,854.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(in \$ millions)	Issued share capital	Treasury shares	Paid in surplus	Equity reserve	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	654.7	(31.7)	3,223.0	63.2	(452.8)	(55.8)	1,976.5	5,377.1	(30.9)	5,346.2
Comprehensive (loss)/income										
Net income/(loss)	-	-	-	-	-	-	436.0	436.0	(17.7)	418.3
Foreign currency translation (loss)/gain	-	-	-	-	(236.6)	-	-	(236.6)	4.2	(232.4)
Cash flow hedges	-	-	-	-	-	(2.7)	-	(2.7)	-	(2.7)
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	2.2	-	2.2	-	2.2
Remeasurement gains on defined benefit pension schemes	-	-	-	-	-	1.0	-	1.0	-	1.0
Tax relating to components of other comprehensive income	-	-	-	-	0.3	-	-	0.3	-	0.3
Total comprehensive (loss)/income	-	-	-	-	(236.3)	0.5	436.0	200.2	(13.5)	186.7
Transactions with owners										
Dividends declared	-	-	-	-	-	-	-	-	(2.5)	(2.5)
Equity component of convertible bonds	-	-	-	(13.0)	-	-	12.6	(0.4)	-	(0.4)
Share-based payments	-	-	6.6	-	-	-	-	6.6	-	6.6
Vesting of share-based payments	-	-	(2.1)	-	-	-	2.1	-	-	-
Reclassification of remeasurement loss on defined benefit pension scheme	-	-	-	-	-	15.1	(15.1)	-	-	-
Shares reissued relating to share-based payments	-	0.2	-	-	-	-	-	0.2	-	0.2
Loss on reissuance of treasury shares	-	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Total transactions with owners	-	0.2	4.5	(13.0)	-	15.1	(0.6)	6.2	(2.5)	3.7
Balance at 31 December 2016	654.7	(31.5)	3,227.5	50.2	(689.1)	(40.2)	2,411.9	5,583.5	(46.9)	5,536.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(in \$ millions)	Issued share capital	Treasury shares	Paid in surplus	Equity reserve	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	664.3	(75.2)	3,255.5	71.2	(242.6)	(73.8)	1,987.5	5,586.9	(25.2)	5,561.7
Comprehensive (loss)/income										
Net loss	-	-	-	-	-	-	(17.0)	(17.0)	(20.0)	(37.0)
Foreign currency translation (loss)/gain	-	-	-	-	(233.0)	-	-	(233.0)	17.3	(215.7)
Cash flow hedges	-	-	-	-	-	11.3	-	11.3	-	11.3
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	7.3	-	7.3	-	7.3
Remeasurement gains on defined benefit pension schemes	-	-	-	-	-	1.2	-	1.2	-	1.2
Tax relating to components of other comprehensive income	-	-	-	-	22.8	(1.8)	-	21.0	-	21.0
Total comprehensive (loss)/income	-	-	-	-	(210.2)	18.0	(17.0)	(209.2)	(2.7)	(211.9)
Transactions with owners										
Shares repurchased	-	(7.6)	-	-	-	-	-	(7.6)	-	(7.6)
Dividends declared	-	-	-	-	-	-	-	-	(3.0)	(3.0)
Equity component of convertible bonds	-	-	-	(8.0)	-	-	7.5	(0.5)	-	(0.5)
Share-based payments	-	-	6.8	-	-	-	-	6.8	-	6.8
Vesting of share-based payments	-	-	1.6	-	-	-	(1.6)	-	-	-
Shares reissued relating to share-based payments	-	0.6	-	-	-	-	-	0.6	-	0.6
Gain on reissuance of treasury shares	-	-	-	-	-	-	0.1	0.1	-	0.1
Shares cancelled	(9.6)	50.5	(40.9)	-	-	-	-	-	-	-
Total transactions with owners	(9.6)	43.5	(32.5)	(8.0)	-	-	6.0	(0.6)	(3.0)	(3.6)
Balance at 31 December 2015	654.7	(31.7)	3,223.0	63.2	(452.8)	(55.8)	1,976.5	5,377.1	(30.9)	5,346.2

CONSOLIDATED CASH FLOW STATEMENT

For the year ended (in \$ millions)	Notes	2016 31 Dec	2015 31 Dec
Net cash generated from operating activities	38	1,045.6	1,048.6
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		16.8	4.0
Purchases of property, plant and equipment		(300.3)	(639.2)
Purchases of intangible assets		(4.1)	(5.5)
Loan repayments from joint venture		69.6	6.6
Loan to joint venture		(8.5)	–
Interest received		17.9	16.7
Dividends received from associates and joint ventures		27.7	63.6
Acquisition of business (net of cash and borrowings acquired)		(18.0)	–
Investment in associates and joint ventures		–	(0.2)
Net cash used in investing activities		(198.9)	(554.0)
Cash flows from financing activities			
Interest paid		(11.8)	(15.1)
Proceeds from borrowings		–	80.0
Repayments of borrowings		–	(80.5)
Cost of share repurchases	24	–	(7.6)
Repurchase of convertible bonds		(106.0)	(64.7)
Proceeds from reissuance of treasury shares		–	0.7
Dividends paid to non-controlling interests		(3.4)	(8.4)
Net cash used in financing activities		(121.2)	(95.6)
Net increase in cash and cash equivalents		725.5	399.0
Cash and cash equivalents at beginning of year	22	946.8	572.6
Effect of foreign exchange rate movements on cash and cash equivalents		4.1	(24.8)
Cash and cash equivalents at end of year	22	1,676.4	946.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Subsea 7 S.A. is a company registered in Luxembourg whose common shares trade on the Oslo Børs and as American Depositary Receipts (ADRs) over-the-counter in the US. The address of the registered office is 412F, route d'Esch, L-2086 Luxembourg.

Subsea 7 is a seabed-to-surface engineering, construction and services contractor to the offshore energy industry worldwide. The 'Group' consists of Subsea 7 S.A. and its subsidiaries at 31 December 2016.

The Group provides 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. Through its i-Tech Services Business Unit, the Group offers a full spectrum of products and capabilities including remotely operated vehicles and tooling services to support exploration and production activities and to deliver full Life of Field services to its clients. In collaboration with its joint venture Seaway Heavy Lifting, the Group offers expertise in three specialist segments of the offshore energy market: the installation of offshore wind farm foundations; heavy lifting operations for oil and gas structures and the decommissioning of redundant offshore structures.

Authorisation of Consolidated Financial Statements

Under Luxembourg law, the Consolidated Financial Statements are approved by the shareholders at the Annual General Meeting. The Consolidated Financial Statements were authorised for issue by the Board of Directors on 1 March 2017.

Presentation of Consolidated Financial Statements

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). The Consolidated Financial Statements comply with Article 4 of the EU IAS Regulation.

Amounts in the Consolidated Financial Statements are stated 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'.

The Consolidated Financial Statements have been prepared on the going concern basis. This assumption is based on the level of cash and cash equivalents at the year end, the credit facilities in place, the forecast cash flows for the Group and the backlog position at 31 December 2016.

The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies adopted are consistent with the Consolidated Financial Statements for the year ended 31 December 2015, except where noted in Note 2 'Adoption of new accounting standards'.

2. Adoption of new accounting standards

(i) Effective new accounting standards

The Group adopted the following EU-endorsed International Financial Reporting Standards (IFRS), amendments and interpretations which were effective for the financial year beginning on 1 January 2016. These amended standards and interpretations did not have a significant impact on the Group's financial position or performance:

- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Annual Improvements to IFRS 2012 – 2014 Cycle

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

The following new or amended IFRS standards and interpretations may be of significance to the Group but have not yet been fully assessed or early adopted:

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. In particular, the standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts', upon which the Group's current revenue recognition policies are based. Either a full retrospective application or a modified retrospective application is required for reporting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is in the process of evaluating which retrospective method will be applied.

During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

The Group has considered the impact IFRS 15 will have upon a range of contractual terms and conditions. In preparation for the adoption of IFRS 15, the Group is considering the following:

- (i) **Combination or separation of contract amendments**
Subsequent modifications to contracts or scope amendments will be regarded as separate contracts to the initial main contract unless the combining criteria, as detailed in IFRS 15, are met. This analysis is likely to be performed on a contract-by-contract basis. Detailed considerations will be required to be undertaken in relation to in-country and out-of-country agreements, variation orders and work performed under frame agreements.
- (ii) **Variable consideration**
Some contracts with customers include clauses in relation to performance bonuses, liquidated damages and provisional sums. It is expected that these sums will be included within the total contract price once they can be reasonably estimated and these will not result in a 'significant revenue reversal' as defined in IFRS 15. This is consistent with the approach currently adopted by the Group.
- (iii) **Contracts with significant procurement**
Under IFRS 15, in circumstances where there is significant procurement, typically during the early stages of contract execution, of items which are not customised or specifically designed for that contract, recognising a contract-wide margin before the offshore phase commences may overstate revenue. The Group is currently determining whether the removal of such procured items from the principal percentage-of-completion calculation will have a significant impact on revenue recognition.
- (iv) **Practical expedient**
The Group is currently evaluating whether the practical expedient permitted by IFRS 15, allowing the recognition of revenue equivalent to the amount invoiced, may be adopted in relation to certain contracts where, typically, monthly invoices are issued according to the number of days worked.
- (v) **Enforceable right to payment**
As a consequence of the IFRS 15 criteria to recognise revenue over time, the Group is reviewing contractual termination clauses to ensure an enforceable right to payment of margin exists.
- (vi) **Presentation and disclosure requirements**
IFRS 15 includes detailed presentation and disclosure requirements. The presentation requirements represent a significant change from current practice and significantly increases the level of disclosures required in the Group's Consolidated Financial Statements. During 2016 the Group formulated a plan to develop appropriate systems, internal controls, policies and procedures to collate and disclose the required information.

The Group, from the preliminary assessment undertaken, considers that the impact of IFRS 15 will not result in a significant change in the revenue and margin recognised for each accounting period when compared with the current application of IAS 18 and IAS 11. It is anticipated that the majority of contracts will be judged to be one distinct performance obligation either 'once bundled' due to the significant integration, significant customisation and highly related promises within the contract or 'as a series' due to the overall promise to deliver a series of days that are substantially the same and have the same pattern of transfer to the customer.

IFRS 9 'Financial Instruments'

IFRS 9 is the International Accounting Standard Board's (IASB) replacement of IAS 39 'Financial Instruments: Recognition and Measurement' and applies to three aspects of accounting for financial instruments: classification and measurement of financial assets as defined in IAS 39, impairment and hedge accounting. IFRS 9 is effective for reporting periods beginning on or after 1 January 2018 with early adoption permitted. Except for hedge accounting, which is to be applied prospectively, retrospective application is required.

The Group is in the process of fully evaluating the impact of the requirements of IFRS 9. During 2016 the Group performed a preliminary assessment of the impact of the standard. Based on this assessment, the Group does not expect the standard to have a significant impact on the Consolidated Financial Statements. The Group will finalise its detailed assessment of the impact of adoption during 2017 and will adopt IFRS 9 on the required effective date. In preparation for the adoption of IFRS 9, the Group is considering the following:

- (i) **Classification and measurement**
The standard replaces the multiple classification and measurement models in IAS 39 with a single model. Except for trade receivables, financial assets will initially be measured at fair value. For debt instruments, subsequent measurement will be based on the composition of contractual cash flows and the business model under which the debt instruments are managed. This results in measurement at either fair value through profit or loss, amortised cost, or fair value through other comprehensive income. In most cases, equity instruments will be measured at fair value through profit and loss.

The Group does not expect a significant impact as a result of the application of these requirements as, with the exception of certain trade receivables, the Group will continue to measure financial assets at fair value. Trade receivables are expected to give rise to cash flows which are solely representative of principal and interest and will therefore continue to be measured at amortised cost where the impact of discounting is material.
- (ii) **Hedge accounting**
IFRS 9 introduces new principle-based hedge accounting rules aimed at creating better alignment with risk management practices. This change will potentially result in more economic hedging strategies becoming eligible for the implementation of hedge accounting. Hedge effectiveness testing will change to being fully prospective and largely qualitative in nature and there will be changes to what qualifies for designation as a hedged item. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect that the application of IFRS 9 will have a significant impact on the future application of hedge accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. Adoption of new accounting standards continued

(iii) Impairment

IFRS 9 requires a change from an incurred loss to an expected credit loss (ECL) impairment model. The ECL model will apply to debt instruments, most loan commitments and contract assets under both IFRS 15 'Revenue from Contracts with Customers' and lease receivables under both IAS 17 'Leases' and IFRS 16 'Leases'. Under the ECL model, entities will be required to recognise a twelve month ECL on initial recognition and thereafter as long as there is no significant deterioration in credit risk. The recognition of lifetime ECL will be required when a significant increase in risk occurs. For trade receivables, a simplified approach may be applied whereby the lifetime ECL is always recognised.

The Group intends to apply the simplified approach and record lifetime expected losses on all trade receivables. Based on a preliminary assessment lifetime ECLs are not expected to be significant but a more detailed analysis considering forward-looking elements will be required to determine the full extent of the impact.

IFRS 16 'Leases'

IFRS 16 is the International Accounting Standard Board's (IASB) replacement of IAS 17 'Leases' and establishes new recognition, measurement and disclosure requirements for both parties to a lease contract. IFRS 16 is effective for reporting periods beginning on or after 1 January 2019, subject to endorsement for EU entities, with early adoption permitted provided that IFRS 15 has also been adopted. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group is in the process of fully evaluating the impact of the requirements of IFRS 16. During 2016 the Group performed a preliminary assessment of the impact of the standard. The Group will finalise its detailed assessment of the impact of adoption during 2017 and will adopt IFRS 16 on the required effective date.

Under IFRS 16 a lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. IFRS 16 eliminates the classification of a lease as either an operating lease or finance lease for lessees and introduces a single model for all leases with the exception of leases for low-value assets or for periods of less than twelve months.

The single model will require lessees to recognise most leases on the balance sheet as lease liabilities. A corresponding asset will be recognised which represents the right to use the leased asset.

These requirements will result in significant changes to the accounting model applied for the lessee, however lessor accounting will, in substance, remain unchanged. The new method will not result in significant changes where leases were previously accounted for as finance leases. Where leases were previously accounted for as operating leases there will be significant changes. The balance sheet will be impacted by increased financial liabilities and corresponding leased assets. The income statement will also be impacted with operating lease expenses being replaced with interest and depreciation charges.

As at 31 December 2016 the Group had \$373 million of commitments under operating leases for vessels, land, buildings and other equipment. The adoption of IFRS 16 will result in a number of these leases being recognised on the balance sheet as lease liabilities with equivalent right-of-use assets recognised within property, plant and equipment. Application of the revised model will have an impact on both the balance sheet, where total assets and total liabilities will increase, and the income statement, where the lease expense recognition pattern will generally be accelerated compared to the current treatment. Key balance sheet and income statement metrics including debt leverage, finance ratios and Adjusted EBITDA could also be impacted. The cash flow statement for leases could be affected with principal payments being presented within financing as opposed to operating activities.

Amendments to recognition of deferred tax assets for unrealised losses – Amendments to IAS 12 'Income taxes'

The amendments to IAS 12 are intended to remove existing divergence in practice in recognition of deferred tax assets for unrealised losses. The amendments clarify that an entity should consider whether tax legislation restricts sources of taxable income against which it may make deductions on the reversal of that deductible temporary difference. The amendments also provide guidance on how an entity should determine future taxable income. The amendments are effective for reporting periods beginning on or after 1 January 2017, subject to endorsement for EU entities. The Group does not expect the amendments to have a significant impact on the Group's Consolidated Financial Statements.

IAS 7 Disclosure Initiative – Amendments to IAS 7 'Statement of Cash Flows'

Part of the IASB disclosure initiative, the amendments to IAS 7 require an entity to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including changes resulting from both cash flows and non-cash charges. Comparative information is not required on initial application. These amendments are effective for reporting periods beginning on or after 1 January 2017, subject to endorsement for EU entities. The Group has evaluated the impact of the amendments and will include the required additional disclosure from the effective date.

IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration

The interpretation provides clarification on the spot exchange rate to be used on both the initial recognition, and subsequent derecognition (including any associated income or expense), of a non-monetary asset or liability related to advance consideration in a foreign currency. The interpretation clarifies that the date of the transaction is the date on which the non-monetary asset or liability resulting from advance consideration should be recognised. It also clarifies that individual transaction dates must be identified when there are multiple payments or receipts in advance. This interpretation is effective for reporting periods beginning on or after 1 January 2018, subject to endorsement for EU entities, with early adoption permitted. The Group does not expect the interpretation to have a significant impact on its Consolidated Financial Statements.

3. Significant accounting policies

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of Subsea 7 S.A. ('the Company') and entities controlled by the Company (its subsidiaries). Control is assumed to exist where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. If the Group loses control over a subsidiary it derecognises related assets, liabilities and non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The Group consolidates non-wholly-owned subsidiaries where it holds less than 50% of the voting rights when the remaining voting rights are held by multiple shareholders and there is no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

Subsidiaries

Assets, liabilities, income and expenses of a subsidiary are included in the Consolidated Financial Statements from the date the Group obtains control over the subsidiary until the date the Group ceases to control the subsidiary. Changes in the Group's interest in a subsidiary that do not result in the Group ceasing to control that subsidiary are accounted for as equity transactions.

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.

Note 40 'Wholly-owned subsidiaries' includes information related to wholly-owned subsidiaries which are included in the Consolidated Financial Statements of the Group.

All subsidiaries are wholly-owned (100%) except those listed in Note 25 'Non-controlling interests'. Non-controlling interests comprise equity interests in subsidiaries which are not attributable, directly or indirectly to the Company. Non-controlling interests in the net assets or liabilities of subsidiaries are identified separately from the equity attributable to shareholders of the parent company. Non-controlling interests consist of the amount of those interests at the date that the Group obtains control over the subsidiary together with the non-controlling shareholders' share of net income or loss and other comprehensive income or loss since that date.

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 a business and rights to the net assets of 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 net income 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided by the Group 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 contracts, cost-plus contracts and similar contracts are recognised on the accrual basis as services are provided.

Long-term construction contracts – general

The Group accounts for long-term construction contracts, including engineering, procurement, installation and commissioning (EPIC) contracts, using the percentage-of-completion method. Revenue and gross profit are recognised each period based upon the advancement of the work-in-progress. 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 these costs will be recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

Revenue recognition continued

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

During the course of multi-year projects 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.

Long-term construction contracts are presented in the Consolidated Balance Sheet as 'Construction contracts – assets' when project revenues plus any full-life project loss provision recognised exceed progress billings, or as 'Construction contracts – liabilities' when progress billings exceed project revenues plus any full-life project loss provision recognised.

Long-term construction contracts – SURF and Conventional contracts

The Group's SURF and Conventional EPIC contracts are accounted for by applying the cost-to-cost percentage-of-completion method based on the ratio of costs incurred to date to total estimated costs. The application of this cost based percentage-of-completion method is considered to most accurately represent the advancement of work-in-progress for SURF and Conventional contracts where the phasing of expenditure is closely linked to the stage of completion of contract activity. Contract revenues and total cost estimates are reviewed by Management on a monthly basis. This percentage cost progression is then applied to full-project forecasts of revenue to determine revenue recognised in a particular period.

Long-term Construction Contracts – Renewable contracts

The Group's renewable engineering, procurement, construction and installation (EPCI) contracts are accounted for by applying the physical progression percentage-of-completion method which reliably measures work performed and the associated recognition of revenue and profit for these types of contract. The application of the cost-to-cost method rather than physical progression method of percentage-of-completion may accelerate revenue and profit recognition due to the typically high proportion of procurement costs, within total project costs. Advancement against individual work scopes and contractual performance obligations are reviewed by Management on a monthly basis. This percentage of physical progression is then applied to full project forecasts to determine revenue and costs recognised in a particular period.

Dry-dock, mobilisation and decommissioning expenditure

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

Mobilisation expenditure, which consists of expenditure incurred prior to the deployment of vessels or equipment, is classified as prepayments and amortised over the project life.

A provision is recognised for decommissioning expenditures required to restore a leased vessel to its original or agreed condition, together with a corresponding amount capitalised as property, plant and equipment, when the Group recognises it has a present obligation and a reliable estimate can be made of the amount of the obligation.

Leasing

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

The Group as lessee

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

Improvements to leased assets are expensed in the Consolidated Income Statement unless they significantly increase the value of the leased asset, under which circumstance this expenditure is capitalised in the Consolidated Balance Sheet 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 leased to third parties are presented in the Consolidated Balance Sheet as a finance lease 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.

All transactions in non-functional currencies are initially translated into the functional currency of each entity at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are translated to the functional currency at the exchange rate prevailing at the balance sheet date.

All resulting exchange rate differences are recognised in the Consolidated Income Statement. Non-monetary items which are measured at historic cost in a non-functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items which are measured at fair value in a non-functional currency are translated to the functional currency using the exchange rate prevailing at the date when the fair value was determined.

Foreign exchange revaluations of short-term intra-group balances denominated in non-functional currencies are recognised in the Consolidated Income Statement. Revaluations of long-term intra-group loans are recognised in the translation reserve in equity.

The assets and liabilities of operations which have a non-US Dollar functional currency are translated into the Group's reporting currency, US Dollar, at the exchange rate prevailing at the balance sheet date. The exchange rate differences arising on the translation are recognised in the translation reserve in equity. Income and expenditure items are translated at the weighted average exchange rates for the year. On disposal of an entity with a non-US Dollar functional currency the cumulative translation adjustment previously recognised in the translation reserve equity is reclassified to the Consolidated Income Statement. At 31 December 2016, the exchange rates of the main currencies used throughout the Group, compared to the US Dollar, were as follows:

GBP	0.809
EUR	0.959
NOK	8.680
BRL	3.327

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. These amounts are calculated using the effective interest rate related to the period of the expenditure. All other borrowing costs are recognised in the Consolidated Income Statement 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. Obligations in respect of such plans are charged to the Consolidated Income Statement as they fall due.

In addition, the Group administers a small number of defined benefit pension plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method.

Remeasurements, comprising actuarial gains and losses and the return on plan assets, (excluding net interest), are recognised immediately through the Consolidated Statement of Comprehensive Income in the period in which they occur with a corresponding adjustment in the Consolidated Balance Sheet. Remeasurements are not reclassified to the Consolidated Income Statement in subsequent periods.

Past service costs are recognised in the Consolidated Income Statement on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises portions of the service cost (comprising current and past service costs) gains and losses on curtailments, non-routine settlements and net interest expense or income in the net defined benefit obligation under both operating expenses and administration expenses in the Consolidated Income Statement. The Group is also committed to providing lump-sum bonuses to employees upon retirement in certain countries. These retirement bonuses are unfunded, and are recorded in the Consolidated Balance Sheet at their actuarial valuation.

Taxation

Taxation expense or income recorded in the Consolidated Income Statement or Consolidated Statement of Other Comprehensive Income represents the sum of the current tax and deferred tax charge or credit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

Taxation continued

Current tax

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

Current tax assets or liabilities are representative of taxes being owed by, or owing to, local tax authorities. In determining current tax assets or liabilities the Group takes into account the impact of uncertain tax positions and whether additional taxes or penalties may be due.

Deferred tax

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 income, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income 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 does not affect either the taxable income or the accounting income before taxes.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in associates, and 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 reporting date. Deferred tax assets are only recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets are derecognised or reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are substantively enacted and expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited directly in the Consolidated Statement of Comprehensive Income in which case the deferred tax is also recognised within the Consolidated Statement of Comprehensive Income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current 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.

Tax contingencies and provisions

A provision for an uncertain tax position is made where the ultimate outcome of a particular tax matter is uncertain. In calculating a provision the Group assesses the probability of the liability arising and, where a reasonable estimate can be made, provides for the liability it considers probable to be required to settle the present obligation. Provisions are based on experience of similar transactions, internal estimates and appropriate external advice.

Business combinations and goodwill

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

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at fair value on the acquisition date, except that:

- deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 'Income Taxes'
- liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 19 'Employee Benefits'
- 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'
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', are measured in accordance with that standard.

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

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

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the sum of the consideration and either, the amount of any non-controlling interests in the acquiree or the fair value of the acquirer's previously held equity interest in the entity less the net fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date. If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration and either, the amount of any non-controlling interests in the acquiree or the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in the Consolidated Income Statement. Goodwill is reviewed for impairment at least annually.

Intangible assets other than goodwill

Overview

Intangible assets acquired separately are measured at cost at the date of initial acquisition. Following initial recognition, intangible assets are measured at cost less amortisation and impairment charges. Internally generated intangible assets are not capitalised, with the exception of development expenditure which meets the criteria for capitalisation.

Intangible assets with finite lives are amortised over their useful economic life and are assessed for impairment 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 least annually. Changes in the expected useful lives 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 as an internally generated intangible asset when the criteria for recognition specified in IAS 38 'Intangible Assets' are met.

Amortisation of the asset over the period of expected future benefit begins when development is complete and the asset is available for use. The asset is tested for impairment whenever there is an indication that the asset may be impaired.

Property, plant and equipment

Property, plant and equipment acquired separately, including critical spare parts acquired and held for future use, are measured at cost less accumulated depreciation and accumulated impairment charges.

Assets under construction are carried at cost, less any recognised impairment charge. Depreciation of these assets commences when the assets become operational and either commence activities or are deemed available for service.

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

Vessels	10 to 25 years
Operating equipment	3 to 10 years
Buildings	20 to 25 years
Other assets	3 to 7 years

Land is not depreciated.

Vessels are depreciated to their estimated residual value. Residual values, useful economic lives and methods of depreciation are reviewed at least annually and adjusted if appropriate.

Gains or losses arising on disposal of property, plant and equipment are determined as the difference between any disposal proceeds and the carrying amount of the asset at the date of the transaction. Gains and losses on disposal are recognised in the Consolidated Income Statement in the period in which the asset is disposed.

Tendering costs

Costs incurred in the tendering process are expensed in the Consolidated Income Statement as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

Impairment of non-financial assets

At each reporting date the Group assesses whether there is any indication that non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's fair value less costs of disposal 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 (CGU) to which the asset is allocated. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used.

Impairment charges are recognised in the Consolidated Income Statement in the expense category consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment charges may no longer exist or may have decreased. If such an indication exists the Group makes an estimate of the recoverable amount. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment charge 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 charge been recognised for the asset in prior periods. Any such reversal is recognised in the Consolidated Income Statement. The following criteria are also applied in assessing impairment of specific assets:

Goodwill

An assessment is made at each reporting date as to whether there is an indication of impairment. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount 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 CGUs, or groups of CGUs, that are expected to benefit from the combination.

Each unit or group of units to which the goodwill is allocated initially 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'. If circumstances give rise to a change in the composition of CGUs and a reallocation is justified, goodwill is reallocated based on relative value at the time of the change in composition. Following any reorganisation the CGU cannot be larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'. Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Recoverable amounts are determined based on value-in-use calculations using discounted pre-tax cash flow projections based on risk adjusted financial forecasts approved by the Executive Management Team.

As cash flow projections are risk adjusted for CGU specific risks, risk premiums are not applied to the discount rate which is applied to all CGUs. The discount rate applied to the cash flow projections is a pre-tax rate and reflects current market assessments of the time value of money, risks specific to the asset and a normalised capital structure for the industry. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment charge is recognised in the Consolidated Income Statement.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed 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 reporting 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 amount. The resultant impairment charge is recognised in the Consolidated Income Statement.

Inventories

Inventories comprise consumables, materials and non-critical spares and are valued at the lower of cost and net realisable value.

Financial instruments

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

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

All financial instruments are initially measured at cost plus transaction costs, with the exception of those classified as fair value through profit or loss and all derivative financial instruments which are measured at fair value.

Derivative financial instruments

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

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

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

After initial recognition the fair values of derivative financial instruments are measured on bid prices for assets held and offer prices for issued liabilities based on values quoted in active markets. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting (including embedded derivative financial instruments) are recognised in the Consolidated Income Statement within other gains and losses.

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 amount 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. Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amount deferred in equity is included in the initial measurement of that non-monetary asset or liability. 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 the Consolidated Income Statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting and the net cumulative gains or losses recognised in equity are immediately recognised in the Consolidated Income Statement.

Cash and cash equivalents

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

Trade receivables and other receivables

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

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

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

Convertible bonds

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

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

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

Bonds which are repurchased by the Group are accounted for as an extinguishment of the associated financial liability and repurchase of the associated conversion option. An amount equivalent to the proportional nominal par value of bonds reacquired is transferred from equity reserve to retained earnings.

Treasury shares

Treasury shares are the Group's own equity instruments which are repurchased and deducted from equity at cost. Gains or losses realised or incurred on the purchase, sale, issue or cancellation of the Group's own equity instruments are recognised directly in the equity component of the Consolidated Balance Sheet. No gains or losses are recognised in the Consolidated Income Statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past transaction or event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised represents the best estimate of the expenditure expected to be required to settle the present obligation. Estimates are determined by the judgement of Management supplemented by the experience of similar transactions, and in some cases, advice from independent experts. Contingent liabilities are disclosed in Note 31 'Commitments and contingent liabilities' to the Consolidated Financial Statements, but not recognised until they meet the criteria for recognition as a provision. 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 an amount reflective of 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.

The following criteria are applied for the recognition and measurement of significant classes of provision:

Restructuring charges

The Group accounts for restructuring charges, including statutory and legal requirements to pay termination costs, when there is a legal or constructive obligation that can be reliably measured. The Group recognises a provision for termination 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. Provisions are measured at the best estimate of the expenditure required to settle estimated statutory redundancy costs and discretionary payments at the reporting date.

Onerous contracts

The Group recognises provisions for onerous contracts once the underlying event or conditions leading to the contract becoming onerous is highly probable and a reliable estimate can be made. Provisions are measured at the best estimate of unavoidable costs under the contract which reflect the least net cost of exiting the contract which is the lower of the cost of fulfilling it and any compensation or penalties resulting from failure to fulfil the contract.

Legal claims

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

Contingent consideration

The Group recognises a provision for contingent consideration resulting from earn out arrangements as part of a business combination. The amount and timing of contingent consideration is often uncertain and is payable based on the achievement of specific targets and milestones. The liability is initially measured at its acquisition date fair value, determined using the discounted cash flows method and unobservable inputs and is remeasured at each reporting date. Changes in fair value are recognised in the Consolidated Income Statement.

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share options and conditional awards of shares based on the performance of the Group. Equity-settled transactions with employees are measured at fair value at the date on which they are granted. The fair value is determined using a Monte Carlo simulation 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 entitled to the award (the vesting date). The cumulative expense recognised for equity-settled transactions at each balance sheet date, until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The cumulative expense also includes the estimated future charge to be borne by the Group in respect of social security contributions, based on the intrinsic unrealised value of the awards using the share price at 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.

Where an equity-settled award is forfeited, due to vesting conditions being unable to be met, the cumulative expense previously recognised is reversed with a credit recognised in the Consolidated Income Statement. If a new award is substituted for the cancelled award, the new award is measured at fair value at the date on which they are granted.

Earnings per share

Earnings per share is calculated using the weighted average number of common shares and common share equivalents outstanding during each period excluding treasury shares. The potentially dilutive effect of outstanding share options and performance shares is reflected as share dilution in the computation of diluted earnings per share. Convertible bonds, excluding those repurchased and held by the Group, are included in the diluted earnings per share calculation if the effect is dilutive, regardless of whether the conversion price has been met.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in Note 3 'Significant accounting policies', Management is required to make judgements, estimates and assumptions regarding the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that the Group believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively in the period in which the estimate is revised.

Revenue recognition

Revenue recognition on long-term construction contracts and renewables contracts

The Group accounts for long-term construction contracts for both engineering, procurement, installation and commissioning (EPIC) projects and renewables and heavy lifting projects using the percentage-of-completion method, which is standard practice in the industry. Contract revenues, total cost estimates and estimates of physical progression are reviewed by Management on a monthly basis. Any adjustments made as a result of these reviews are reflected in contract revenues or contract costs in the reporting period, based on the percentage-of-completion methods.

To the extent that these adjustments result in a reduction or elimination of previously reported contract revenues or costs, a charge or credit is recognised in the Consolidated Income Statement; amounts in prior periods are not restated. Such a charge or credit may be significant depending on the size and complexity of the project, the stage of project completion and the size of the adjustment. Additional information that enhances and refines the estimating process is often obtained after the balance sheet date but before the issuance of the Consolidated Financial Statements, which may result in an adjustment to the Consolidated Financial Statements based on events, favourable or unfavourable, occurring after the balance sheet date. If a condition arises after the balance sheet date which is of a non-adjusting nature, the results recognised in the Consolidated Financial Statements are not adjusted.

The percentage-of-completion method requires the Group to make reliable estimates of physical progression, costs incurred, full project contract costs and full project contract revenues. The Group's Project Monthly Status Reports (PMSRs) evaluate the likely outcome of each individual project for the purpose of making reliable estimates of cost, revenue and progression, measured either by cost or physical progression. A key element of the PMSRs is the estimate of contingency. Contingency is an estimate of the costs required to address the potential future outcome of identified project risks. The Group uses a systematic approach in estimating contingency based on project size. This approach utilises an analysis of sensitivities or a project specific risk register in order to identify and assess the likelihood and impact of these risks. The most significant risks and uncertainties in the Group's projects typically relate to the offshore phase of operations. Identified risks that materialise may result in increased costs. Contingency associated with identified risks will be removed from the full project cost estimate throughout the remaining life of the project if the identified risks do not materialise.

Revenue recognition on variation orders and claims

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

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

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

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

Allocation of goodwill to cash-generating units (CGUs)

During 2016, the Group completed the acquisition of two companies resulting in the recognition of goodwill. Management used their judgement in the identification of a Pipeline Group CGU which includes all acquired activities connected with the fabrication and installation of polymer-lining technology for pipelines and riser systems. The Board of Directors and Management will monitor goodwill, and the associated contingent consideration separately from other goodwill recognised by the Group.

The Group completed a reorganisation effective 1 July 2016. Subsequent to this reorganisation, there were changes to the level at which goodwill is monitored which resulted in the aggregation of management regions and CGUs. These changes did not result in any reallocation of goodwill balances between CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

Goodwill carrying amount

Goodwill is reviewed at least annually to assess whether there is objective evidence to indicate that the carrying amount of goodwill is impaired at a CGU level. The impairment review is performed on a value-in-use basis which requires the estimation of future net operating cash flows. Further details relating to the impairment review can be found in Note 13 'Goodwill'.

Property, plant and equipment

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

A review for indicators of impairment is performed at each reporting date. When events or changes in circumstances indicate that the carrying amount of property, plant and equipment may not be recoverable, a review for impairment is carried out by Management. Where the value-in-use method is used to determine the recoverable amount of an asset, Management uses its judgement in determining the CGU to which the assets belongs, or whether the asset can be considered a CGU in its own right. The level of aggregation of assets is a significant assumption made by Management and includes consideration of which assets generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In many cases Management has determined that vessels are not CGUs individually as they do not generate cash inflows independently of other Group assets. Once the CGU has been determined Management uses its judgement in determining the value-in-use of the CGU as detailed in Note 13 'Goodwill'. Where an asset is considered a CGU in its own right Management uses its judgement to estimate future asset utilisation, profitability, remaining life and the discount rate used.

Recognition of provisions and disclosure of contingent liabilities

In the ordinary 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 multiple long-term projects at any given time. The Group recognises provisions to cover the expected risk of loss to the extent that negative outcomes are likely and reliable estimates can be made. 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 may be involved in legal proceedings from time to time; these proceedings are 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 incur additional expenditures in excess of provisions that it may have established.

Management uses its judgement in determining whether the Group should recognise a provision or disclose a contingent liability. These judgements include whether the Group has a present obligation and the probability that an outflow of economic resource is required to settle the obligation. Management may also use its judgement to determine the amount of the obligation or contingent liability. Management uses external advisers to assist with some of these judgements. Further details relating to provisions and contingent liabilities can be found in Note 30 'Provisions' and Note 31 'Commitments and contingent liabilities'.

Taxation

The Group is subject to taxation in numerous jurisdictions and significant judgement is required in calculating the consolidated tax provision. There are 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. 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. Where the final tax outcome of these matters differs from the amounts that were initially recorded, the difference will impact the tax charge in the period in which the outcome is determined. Details of key judgements and other issues considered are set out in Note 9 'Taxation'.

5. Segment information

Prior to 1 July 2016 the Group was organised into two Business Units, which were representative of the geographic locations of principal activities, and a Corporate segment. With effect from 1 July 2016, the Group implemented a new organisational structure comprising three Business Units: SURF and Conventional, i-Tech Services and Corporate, which are representative of the Group's operating segments and are defined below:

SURF and Conventional

The SURF and Conventional Business Unit includes:

- Subsea Umbilicals, Risers and Flowlines (SURF) activities related to the engineering, procurement, construction and installation of highly complex systems offshore, including the long-term PLSV contracts in Brazil; and
- Conventional services including the fabrication, installation, extension and refurbishment of fixed and floating platforms and associated pipelines in shallow water environments. This segment also includes the SapuraAcergy, Subsea 7 Malaysia and Normand Oceanic joint ventures.

i-Tech Services

The i-Tech Services Business Unit includes activities associated with the provision of Inspection, Maintenance and Repair (IMR) services, integrity management of subsea infrastructure and remote intervention support. This segment also includes the Eidesvik Seven joint venture.

Corporate

The Corporate Business Unit includes activities associated with the provision of Renewables and Heavy Lifting services, including the Seaway Heavy Lifting joint venture, and group-wide activities, including offshore resources, captive insurance activities, operational support and corporate services.

The accounting policies of the Business Units are the same as the Group's accounting policies, which are described in Note 3 'Significant accounting policies'. There is a percentage of central costs allocated to each segment based on external revenue.

Allocations of costs also occur between segments based on the physical location of personnel. The Chief Operating Decision Maker (CODM) is the Chief Executive Officer of the Group. The CODM is assisted by the other members of the Executive Management Team. Neither total assets nor total liabilities by operational segment are regularly provided to the CODM and consequently no such disclosure is shown.

Summarised financial information concerning each operating segment is as follows:

For the year ended 31 December 2016

(in \$ millions)	SURF and Conventional	i-Tech Services	Corporate ^(c)	Total
<i>Selected financial information:</i>				
Revenue ^(a,b)	3,011.3	377.4	178.0	3,566.7
Operating expenses	(2,194.4)	(328.3)	(236.9)	(2,759.6)
Impairment of goodwill	(90.4)	-	-	(90.4)
Share of net income of associates and joint ventures	20.6	1.5	24.3	46.4
Depreciation, mobilisation and amortisation expenses	(266.0)	(41.7)	(64.1)	(371.8)
Impairment of property, plant and equipment and intangible assets	(49.4)	(8.9)	(100.2)	(158.5)
<i>Reconciliation of net operating income to income before taxes:</i>				
Net operating income/(loss) excluding goodwill impairment	717.1	38.0	(143.7)	611.4
Net operating income/(loss) including goodwill impairment	626.7	38.0	(143.7)	521.0
Finance income				17.9
Other gains and losses				44.9
Finance costs				(7.1)
Income before taxes				576.7

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

(b) Two clients in the year individually accounted for more than 10% of the Group's revenue. The revenue from these clients, attributable to both SURF and Conventional and i-Tech Services operating segments, were as follows; Client A \$587.7 million (2015: \$633.1 million) and Client B \$501.9 million (2015: \$262.3 million).

(c) Corporate operating segment includes \$176.0 million (2015: \$7.3 million) of revenue related to the provision of Renewables and Heavy Lifting services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. Segment information continued For the year ended 31 December 2015

(in \$ millions)	SURF and Conventional Re-presented ^(a)	i-Tech Services Re-presented ^(a)	Corporate Re-presented ^(a)	Total Re-presented ^(a)
<i>Selected financial information:</i>				
Revenue ^(b)	4,282.6	446.3	29.2	4,758.1
Operating expenses	(3,282.5)	(412.4)	(156.8)	(3,851.7)
Impairment of goodwill	(520.9)	–	–	(520.9)
Share of net income of associates and joint ventures	1.8	1.5	60.1	63.4
Depreciation, mobilisation and amortisation expenses	(283.2)	(47.3)	(85.2)	(415.7)
Impairment of intangible assets, property, plant and equipment	(8.0)	–	(128.5)	(136.5)
<i>Reconciliation of net operating income to income before taxes:</i>				
Net operating income/(loss) excluding goodwill impairment	840.5	21.7	(197.5)	664.7
Net operating income/(loss) including goodwill impairment	319.6	21.7	(197.5)	143.8
Finance income				16.7
Other gains and losses				32.6
Finance costs				(8.2)
Income before taxes				184.9

(a) Re-presented due to the reorganisation of the operating segments from 1 July 2016.

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

Geographic information

Revenues from external clients

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

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
United Kingdom	1,485.7	1,736.0
Norway	500.5	557.9
United States of America	317.8	350.1
Egypt	296.4	57.6
Brazil	220.5	262.6
Nigeria	204.0	512.7
Australia	159.8	309.8
Angola	120.0	153.9
Ghana	72.4	185.0
France	42.3	364.9
Republic of Congo	30.5	188.5
Other countries	116.8	79.1
	3,566.7	4,758.1

Non-current assets

Based on the country of registered office of the Group's subsidiary or branch, non-current assets excluding goodwill, derivative financial instruments, retirement benefit assets and deferred tax assets are located in the following countries:

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
United Kingdom	2,877.4	3,800.8
Isle of Man	747.0	35.5
Gibraltar	326.6	322.8
Norway	274.3	430.5
Egypt	112.7	–
Angola	126.5	169.9
Cyprus	–	147.4
Other countries	106.8	139.9
	4,571.3	5,046.8

Goodwill is allocated to cash-generating units (CGUs) rather than individual legal entities it is therefore not possible to allocate it to individual countries. The allocation of goodwill to CGUs is shown in Note 13 'Goodwill'.

6. Net operating income

Net operating income includes:

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Research and development costs	19.3	22.5
Employee benefits (excluding termination expenses)	860.8	1,247.1
Restructuring – termination ^(a)	67.3	98.4
Restructuring – other ^(b)	29.7	37.7
Depreciation of property, plant and equipment (Note 15)	354.5	386.4
Amortisation of intangible assets (Note 14)	7.3	7.2
Mobilisation costs	10.0	22.1
Impairment of goodwill (Note 13)	90.4	520.9
Impairment of intangible assets (Note 14)	0.6	–
Impairment of property, plant and equipment (Note 15)	157.9	136.5
Auditor's remuneration	2.2	2.2

(a) Includes pay in lieu of notice, statutory redundancy costs and discretionary payments.

(b) Includes onerous lease charges and professional fees.

The total fees for the financial year chargeable to the Group by the principal auditing firm Ernst & Young S.A. and other member firms of Ernst & Young Global Limited were:

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Audit fees	1.7	1.4
Tax fees	0.5	0.7
Other fees	–	0.1
	2.2	2.2

Audit fees constitute charges incurred for professional services rendered by the Group's principal auditor and member firms. Charges were incurred for the audit of the consolidated and statutory financial statements of Subsea 7 S.A. and certain subsidiaries. Fees were primarily incurred in connection with the financial year ended 31 December 2016 but include final settlement of charges associated with the financial year ended 31 December 2015.

Tax fees constitute charges incurred for professional services rendered by the Group's principal auditors and their member firms relating to the provision of tax advice and tax compliance services for work undertaken during the year ended 31 December 2016.

Audit Committee policy requires pre-approval of audit and non-audit services prior to the appointment of the providers of professional services together with highlighting excluded services which the Group's principal auditor cannot provide. The Audit Committee delegates approval to the Chief Financial Officer based on predetermined limits. The Audit Committee pre-approved or, in cases where pre-approval was delegated, ratified all audit and non-audit services provided to Subsea 7 S.A. and subsidiaries during the year ended 31 December 2016.

Reconciliation of operating expenses and administrative expenses by nature

For the year ended (in \$ millions)	31 Dec 2016			31 Dec 2015		
	Operating expenses	Administration expenses	Total expenses	Operating expenses	Administration expenses	Total expenses
Employee benefits (excluding termination expenses)	725.0	135.8	860.8	1,078.0	169.1	1,247.1
Restructuring – termination ^(a)	51.2	16.1	67.3	83.8	14.6	98.4
Restructuring – other ^(b)	6.7	23.0	29.7	8.9	28.8	37.7
Depreciation, amortisation and mobilisation	354.5	17.3	371.8	393.1	22.6	415.7
Impairment of intangible assets	0.6	–	0.6	–	–	–
Impairment of property, plant and equipment	157.9	–	157.9	136.5	–	136.5
Other expenses	1,463.7	49.9	1,513.6	2,151.4	70.0	2,221.4
Total	2,759.6	242.1	3,001.7	3,851.7	305.1	4,156.8

(a) Includes pay in lieu of notice, statutory redundancy costs and discretionary payments.

(b) Includes onerous lease charges and professional fees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. Other gains and losses

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Losses on disposal of property, plant and equipment	(2.3)	(33.0)
Insurance income	–	30.6
Net gain on derivative financial instruments	1.0	1.3
Net gain on repurchase of convertible bonds	3.0	2.6
Net foreign currency exchange gains	43.2	31.1
Total	44.9	32.6

8. Finance income and costs

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Interest income	17.9	16.7
Total finance income	17.9	16.7

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Interest and fees on borrowings	6.9	5.7
Interest on convertible bonds (Note 27)	16.8	20.4
Total borrowing costs	23.7	26.1
Less: amounts capitalised and included in the cost of qualifying assets	(16.8)	(20.4)
	6.9	5.7
Interest on tax liabilities	0.2	2.5
Total finance costs	7.1	8.2

Borrowing costs included in the cost of qualifying assets during the year was calculated by applying to expenditure on such assets a capitalisation rate of between 3.5% and 3.6% dependent on the funding source (2015: between 3.5% and 3.6%).

9. Taxation

Tax recognised in the Consolidated Income Statement

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Tax charged/(credited) in the Consolidated Income Statement		
Current tax:		
Corporation tax on income for the year	169.8	242.9
Adjustments in respect of prior years	(11.9)	(8.4)
Total current tax	157.9	234.5
Deferred tax charge/(credit)	0.5	(12.6)
Total	158.4	221.9

Tax recognised in the Consolidated Statement of Comprehensive Income

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Tax credit relating to items recognised directly in comprehensive income		
Current tax on:		
Exchange differences	(0.3)	(22.8)
Income tax recognised directly in comprehensive income	(0.3)	(22.8)
Deferred tax on:		
Net (losses)/gains on revaluation of cash flow hedges	(0.5)	1.5
Actuarial gains on defined benefit pension plans	0.5	0.3
Deferred tax recognised directly in comprehensive income	–	1.8
Total	(0.3)	(21.0)

Reconciliation of the total tax charge

Income taxes have been provided based on the tax laws and rates in the countries where the Group operates and generates income. The Group's tax charge is determined by applying the statutory tax rate to the net income or loss earned in each of the jurisdictions in which the Group operates in accordance with the relevant tax laws, taking account of permanent differences between taxable income or loss and accounting income or loss. The tax rate used in 2016 for the purpose of the reconciliation of the total tax charge is 29.22% which corresponds to the blended tax rate applicable to Luxembourg entities (2015: 29.22%).

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Income before taxes	576.7	184.9
Tax at the blended tax rate of 29.22% (2015: 29.22%)	168.5	54.0
Effects of:		
Benefit of tonnage tax regimes	(25.4)	(11.2)
Different tax rates of subsidiaries operating in other jurisdictions	(81.5)	(48.5)
Movement in unprovided deferred tax ^(a)	38.1	437.8
Tax effect of share of net income of associates and joint ventures	(13.5)	(18.5)
Withholding taxes and unrelieved overseas taxes	37.6	46.6
Changes in tax rates	(1.4)	(2.4)
Other permanent differences	8.8	7.8
Goodwill impairment not deductible	26.4	152.2
Impairment of subsidiaries of the parent company	–	(372.1)
Adjustments related to prior years	0.8	(23.8)
Tax charge in the Consolidated Income Statement	158.4	221.9

(a) The movement in unprovided deferred tax in the prior year mainly related to net operating losses arising as a result of impairments of direct subsidiaries of the parent company. Impairments arose primarily as a result of the reorganisation of a corporate structure.

Deferred tax

Movements in the net deferred tax balance were:

(in \$ millions)	2016	2015
At year beginning	(54.3)	(68.9)
Credited/(charged) to:		
Consolidated Income Statement	(0.5)	12.6
Consolidated Statement of Comprehensive Income	–	(1.8)
Consolidated Statement of Changes in Equity	–	–
Balance sheet transfers	1.2	0.6
Exchange differences	6.1	3.2
At year end	(47.5)	(54.3)

The main categories of deferred tax assets and liabilities recognised in the Consolidated Financial Statements, before offset of balances within countries where permitted, were as follows:

As at 31 December 2016

(in \$ millions)	Deferred tax asset	Deferred tax liability	Net recognised deferred tax asset/(liability)
Property, plant and equipment	–	(42.2)	(42.2)
Accrued expenses	5.5	(22.7)	(17.2)
Share-based payments	0.5	–	0.5
Tax losses	11.5	–	11.5
Other	2.0	(2.1)	(0.1)
Total	19.5	(67.0)	(47.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9. Taxation continued

Deferred tax continued

As at 31 December 2015

(in \$ millions)	Deferred tax asset	Deferred tax liability	Net recognised deferred tax asset/(liability)
Property, plant and equipment	0.2	(75.1)	(74.9)
Accrued expenses	4.6	–	4.6
Share-based payments	0.2	–	0.2
Tax losses	5.3	–	5.3
Other	24.0	(13.5)	10.5
Total	34.3	(88.6)	(54.3)

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

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Deferred tax assets	13.2	9.1
Deferred tax liabilities	(60.7)	(63.4)
Total	(47.5)	(54.3)

As at 31 December 2016, the Group had tax losses of \$2,042.2 million (2015: \$1,811.2 million) available for offset against future taxable profits. A deferred tax asset has been recognised, using the applicable tax rates, in respect of \$36.1 million (2015: \$22.6 million) of such losses. No deferred tax asset has been recognised in respect of the remaining \$2,006.1 million (2015: \$1,788.6 million) as it is not considered probable that there will be sufficient future taxable profits available for offset. In addition, the Group has other unrecognised deferred tax assets of approximately \$34.4 million (2015: \$55.6 million) in respect of deferred project expenditure and other temporary differences.

No deferred tax has been recognised in respect of temporary differences relating to the unremitted earnings of the Group's subsidiaries and branches where remittance is not contemplated and where the timing of distribution is within the control of the Group and for those interests in associates and joint ventures where it has been determined that no additional tax will arise. The aggregate amount of unremitted earnings giving rise to such temporary differences for which deferred tax liabilities were not recognised at 31 December 2016 was \$1,059.5 million (2015: \$1,031.8 million).

Tonnage tax regime

The tax charge reflected a net benefit in the year of \$25.4 million (2015: \$11.2 million) as a result of activities taxable under the current UK and Norwegian tonnage tax regimes, as compared to the tax that would be payable if those activities were not eligible.

Net operating losses (NOLs)

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

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Within five years	18.7	35.7
5 to 10 years	198.0	144.8
11 to 20 years	215.7	125.0
Without time limit	1,609.8	1,505.7
Total	2,042.2	1,811.2

There were \$131.2 million of NOLs included in the above relating to Brazil on which no deferred tax asset was recognised by the Group at 31 December 2016 (2015: \$136.3 million). Cumulative losses included in the above in respect of operations in the Gulf of Mexico were \$412.4 million (2015: \$270.0 million).

Included in the above were \$1,420.8 million (2015: \$1,351.6 million) of NOLs relating to Luxembourg, which could be subject to future claw-back if certain transactions were entered into.

Tax contingencies and provisions

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

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

In 2016, operations in various countries were subject to enquiries, audits and disputes, including, but not limited to, those in Brazil, Angola, Gabon, Canada, Nigeria and Norway. These audits are at various stages of completion. The Group's policy is to co-operate fully with the relevant tax authorities while seeking to defend its tax positions.

In the year ended 31 December 2016, the Group recorded a net tax increase in respect of its tax provisions of \$3.7 million (2015: \$3.6 million increase) as a result of revised future potential exposures and the resolution of certain matters with the relevant tax authorities. 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.

10. Dividends

No dividends were paid in 2016 or 2015.

11. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net income or loss attributable to shareholders of the parent company by the weighted average number of common shares in issue during the year, excluding shares repurchased by the Group and held as treasury shares (Note 24 'Treasury shares').

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company's potentially dilutive common shares include those related to convertible bonds, share options and performance shares. The convertible bonds are assumed to have been converted into common shares and the net income or loss is adjusted to eliminate the interest expense (net of capitalised interest). For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The net income or loss attributable to shareholders of the parent company and share data used in the basic and diluted earnings per share calculations were as follows:

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Net income/(loss) attributable to shareholders of the parent company	436.0	(17.0)
Earnings used in the calculation of diluted earnings per share	436.0	(17.0)

For the year ended	2016 31 Dec Number of shares	2015 31 Dec Number of shares
Weighted average number of common shares used in the calculation of basic earnings per share	325,692,190	325,768,171
Convertible bonds	16,488,335	–
Share options and performance shares	705,069	–
Weighted average number of common shares used in the calculation of diluted earnings per share	342,885,594	325,768,171

For the year ended (in \$ per share)	2016 31 Dec	2015 31 Dec
Basic earnings per share	1.34	(0.05)
Diluted earnings per share	1.27	(0.05)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. Earnings per share continued

Basic and diluted earnings per share continued

In the year the following shares, that could potentially dilute the earnings per share, were excluded from the calculation of diluted earnings per share due to being either anti-dilutive or not anti-dilutive:

For the year ended	2016 31 Dec Number of shares	2015 31 Dec Number of shares
Convertible bonds	–	21,216,925
Share options and performance shares	1,187,825	2,417,260

Adjusted diluted earnings per share

Adjusted diluted earnings per share represents diluted earnings per share excluding the goodwill impairment charge of \$90.4 million (2015: \$520.9 million). The net income or loss attributable to shareholders of the parent company and share data used in the calculation of Adjusted diluted earnings per share were as follows:

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Net income/(loss) attributable to shareholders of the parent company	436.0	(17.0)
Impairment of goodwill (Note 13)	90.4	520.9
Interest on convertible bonds (net of amounts capitalised)	–	–
Earnings used in the calculation of Adjusted diluted earnings per share	526.4	503.9

For the year ended	2016 31 Dec Number of shares	2015 31 Dec Number of shares
Weighted average number of common shares used in the calculation of basic earnings per share	325,692,190	325,768,171
Convertible bonds	16,488,335	21,216,925
Share options and performance shares	705,069	80,820
Weighted average number of common shares used in the calculation of Adjusted diluted earnings per share	342,885,594	347,065,916

For the year ended (in \$ per share)	2016 31 Dec	2015 31 Dec
Adjusted diluted earnings per share	1.54	1.45

12. Business combination

On 27 July 2016 an indirect subsidiary of Subsea 7 S.A. acquired 100% of the shares of Swagelining Limited and Pioneer Lining Technology Limited. Both acquired businesses are limited companies incorporated and domiciled in the United Kingdom and are involved in the development and delivery of technology in the field of polymer-lining technology for pipelines and riser systems. The primary reason for the business combination was to expand the Group's capabilities in this specialist field. The net assets acquired, goodwill arising on acquisition and the analysis of the purchase consideration are shown below. Stamp duty and other expenses incurred in connection with the acquisition have been accounted for separately and recorded within operating expenses in the Consolidated Income Statement.

The fair values of the identifiable assets and liabilities of Swagelining Limited and Pioneer Lining Technology Limited as at 27 July 2016 are shown below. This table is inclusive of finalisation adjustments recognised between the date of the acquisition and 31 December 2016.

(in \$ millions)

Assets	
Intangible assets (Note 14)	23.6
Property, plant and equipment (Note 15)	1.3
Trade and other receivables	1.3
Construction contracts assets	0.1
Other accrued income and prepaid expenses	0.2
Cash and cash equivalents	6.5
	33.0
Liabilities	
Trade and other liabilities	1.3
Current tax liabilities	0.1
Deferred tax liabilities	0.2
Provisions	0.3
Contingent liability	2.8
Construction contract liabilities	0.1
Other non-current liabilities	0.2
	5.0
Total identifiable net assets at fair value	28.0
Less: deferred tax liability recognised on intangible assets (Note 9)	4.4
Add: goodwill arising on acquisition (Note 13)	14.9
	38.5
Consideration comprised of:	
Cash and cash equivalents	26.2
Contingent consideration	12.3
	38.5

Goodwill

Goodwill comprises the value of unpatented technology and ongoing early stage research and development which do not meet the criteria for separate recognition. Subsequent to initial recognition of provisional amounts, retrospective adjustments to goodwill were made following the completion of certain post-transaction procedures specified at the time of the business combination. A reconciliation of the movement in goodwill from the provisional balance initially recognised at the date of acquisition to the balance as at 31 December 2016, subsequent to finalisation adjustments, is shown below:

(in \$ millions)

Provisional goodwill arising on business combination	9.1
Adjustments to total identifiable net assets at fair value subsequent to initial recognition	0.5
Recognition of deferred tax liability on intangible assets	4.4
Increase in cash consideration subsequent to initial recognition	0.9
Goodwill arising on acquisition (Note 13)	14.9
Exchange differences	(0.8)
As at 31 December 2016	14.1

Goodwill is allocated to the Pipelines Group CGU. Goodwill is not expected to be deductible for tax purposes.

Receivables

Receivables are shown at fair value and represent the gross contractual amounts receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. Business combination continued

Cash consideration

As part of the sale and purchase agreement, the cash consideration paid to the previous owners was subject to revision for specific items following completion of certain post-transaction procedures specified at the time of the business combination.

Contingent consideration

As part of the sale and purchase agreement with the previous owners of the acquired companies, contingent consideration has been agreed. Additional cash payments to the previous owners may be payable should the acquired companies achieve specific targets and milestones.

As at the acquisition date, the fair value of the contingent consideration was estimated to be \$12.3 million. The fair value was determined using the discounted cash flow method and management assumptions. Significant inputs to the valuation included the:

- Assumed probability of the achievement of installation targets and technical milestones
- Discount rate

A significant increase or decrease in the assumed probability of achieving targets and milestones would result in a higher or lower fair value of the contingent consideration provision, while a significant increase or decrease in the discount rate would result in a lower or higher fair value of the provision. The range of potential outcomes is between \$nil and \$16.0 million.

As at 31 December 2016, the key performance indicators for the acquired companies indicate that it is probable that targets and milestones will be partially achieved. The fair value of the contingent consideration as at 31 December 2016 reflects the current assessments of the likelihood of achievement of each target. This was based on a review of developments within the business since the date of acquisition. A reconciliation of the fair value measurement of the contingent consideration provision is shown below:

(in \$ millions)

Liability arising on business combination	12.3
Exchange differences	(0.8)
As at 31 December 2016	11.5

The contingent consideration provision is dependent on the achievement of specific targets and milestones and is due for final measurement and payment dependent on achievement during the period between the date of acquisition and 2026. The contingent provision is reported within Note 30 'Provisions'.

13. Goodwill

(in \$ millions)

	Total
Cost	
At 1 January 2015	2,494.8
Exchange differences	(89.1)
At 31 December 2015	2,405.7
Acquisition (Note 12)	14.9
Exchange differences	(248.4)
At 31 December 2016	2,172.2
Accumulated impairment	
At 1 January 2015	1,172.5
Impairment charge	520.9
Exchange differences	(54.5)
At 31 December 2015	1,638.9
Impairment charge	90.4
Exchange differences	(184.8)
At 31 December 2016	1,544.5
Carrying amount	
At 31 December 2015	766.8
At 31 December 2016	627.7

On 27 July 2016, an indirect subsidiary of Subsea 7 S.A. acquired 100% of the shares of Swagelining Limited and Pioneer Lining Technology Limited. This acquisition resulted in the recognition of goodwill of £11.4 million, equivalent to \$14.9 million at the date of acquisition and \$14.1 million at 31 December 2016. All of the goodwill is allocated to the Pipelines Group CGU.

For financial management and reporting purposes, the Group is organised into management regions. Management regions are aligned with the three Business Units which are used by the Chief Operating Decision Maker (CODM) to allocate resources and appraise performance. The Group completed a reorganisation effective 1 July 2016. Subsequent to this reorganisation, there were changes to the level at which goodwill is monitored by the CODM resulting in the aggregation or segregation of management regions to form CGUs.

The Group has eight CGUs which are aligned with management regions; these are:

- CGUs for Asia Pacific and Middle East (APME), Brazil, Gulf of Mexico (GOM) and North Sea and Canada (NSC) include activities connected with the performance of regional projects including SURF activities (related to the engineering, procurement, construction and installation of offshore systems), Conventional services (including the fabrication, installation, extension and refurbishment of platforms and pipelines in shallow water) and the long-term PLSV contracts in Brazil. This CGU excludes projects which are delivered by the Global Project Centre.
- Africa and Global Projects CGU includes activities connected with the performance of regional SURF and Conventional services projects in Africa and activities related to the performance of global projects managed within the Global Project Centre.
- i-Tech Services CGU includes non-UK activities connected with the provision of Inspection, Maintenance and Repair (IMR) services, integrity management of subsea infrastructure and remote intervention support.
- Pipelines Group CGU includes activities connected with the fabrication and installation of polymer-lining technology for pipelines and riser systems.
- Renewables and Heavy Lifting CGU includes activities connected with three specialist segments of the offshore energy market: the installation of offshore wind farm foundations, heavy lifting operations for oil and gas structures, and the decommissioning of redundant offshore structures. This CGU includes the Group's share of net income from its joint venture Seaway Heavy Lifting.

The Group performed its annual goodwill impairment test at 31 December 2016. The carrying amounts of goodwill allocated to the CGUs subsequent to this review and recognition of the resulting impairment charge were as follows:

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Africa and Global Projects	382.6	427.7
APME	–	91.0
i-Tech Services	62.0	68.0
NSC	169.0	180.1
Pipelines Group	14.1	–
Total	627.7	766.8

The recoverable amounts of the CGUs were determined based on a value-in-use calculation using pre-tax, risk adjusted cash flow projections approved by the Executive Management Team covering a five-year period from 2017 to 2021. Cash flows beyond this five-year period were extrapolated in perpetuity using a 2.0% (2015: 2.0%) growth rate to determine the terminal value. The pre-tax discount rate applied to risk adjusted cash flow projections was 11.2% (2015: 11.1%).

Following the annual impairment review, the impairment charge in respect of goodwill recognised in the Consolidated Income Statement for the year ended 31 December 2016 was as follows:

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
APME	90.4	169.6
GOM	–	55.2
NSC	–	296.1
Total	90.4	520.9

The recoverable amount of the APME CGU was \$66.0 million (2015: \$172.2 million). The impairment charge relating to the APME CGU is reported within the SURF and Conventional operating segment. The decrease in the recoverable amount arose as a result of the continued challenging business environment in the Asia Pacific region. In the short-to-medium term low oil prices combined with low levels of project awards are expected to adversely impact activity levels in the region.

Key assumptions used in value-in-use calculations

The calculations of value-in-use for all CGUs are most sensitive to the following assumptions:

- EBITDA forecasts;
- discount rate; and
- the growth rate used to extrapolate cash flows.

EBITDA forecast – The EBITDA forecast for each CGU is dependent on a combination of factors including market size, market share, contractual backlog, gross margins, future project awards, asset utilisation and an assessment of competitor disruption. Assumptions are based on a combination of internal and external studies, management judgements and historical information, adjusted for any foreseen changes in market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13. Goodwill continued

Key assumptions used in value-in-use calculations continued

Discount rate – The discount rate was estimated based on the weighted average cost of capital of the Group, amended to reflect a normalised capital structure for the industry. Risk premiums were not applied to the discount rate applied to individual CGUs as the CGU cash flows projections were risk adjusted.

Growth rate estimates – The 2.0% (2015: 2.0%) growth rate used to extrapolate the cash flow projections beyond the five-year period is broadly consistent with market expectations for long-term growth in the subsea industry and assumes no significant change in the Group's market share and the range of services and products provided.

Sensitivity to changes in assumptions

In determining the value-in-use recoverable amount for each CGU, sensitivities have been applied to each of the key assumptions. In respect of EBITDA forecasts, a number of scenarios were considered. These scenarios incorporate the level of capital expenditure required for the Group to remain as a leading contractor within the subsea sector.

CGUs not impaired and not sensitive to impairment

No reasonably possible change in any of the key assumptions would, in isolation, cause the recoverable amount of the i-Tech Services CGU, the NSC CGU or the Pipelines Group CGU to be materially less than its carrying amount and hence no goodwill impairment charge was recognised.

The GOM CGU and the Brazil CGU have no goodwill, therefore any future changes in the key assumptions in isolation would not result in a further impairment charge being recognised against goodwill.

CGUs where goodwill has been impaired during the year

Following the recognition of the impairment charge, the APME CGU does not have any goodwill, therefore any future adverse changes in key assumptions in isolation would not result in a further impairment charge being recognised against goodwill.

CGUs not impaired but sensitive to impairment

Changes to key assumptions used in the impairment review would, in isolation, lead to an increase in the aggregate goodwill impairment charge recognised in the year ended 31 December 2016 as follows:

(in \$ millions)	Africa and Global Projects
Pre-tax discount rate	
Increase by 1 percentage point	136.5
Decrease by 1 percentage point	–
Long-term growth rate	
Increase by 1 percentage point	–
Decrease by 1 percentage point	75.4
EBITDA upon which terminal values have been calculated	
Decrease by 5 percent	–
Increase by 5 percent	–

14. Intangible assets

(in \$ millions)	Software	Developed technology	Other intangibles	Total
Cost				
At 1 January 2015	35.3	12.6	6.3	54.2
Additions	5.5	–	–	5.5
Disposals	(2.2)	(12.3)	–	(14.5)
Exchange differences	(1.2)	(0.3)	(0.6)	(2.1)
At 31 December 2015	37.4	–	5.7	43.1
Acquisition of business (Note 12)	–	–	23.6	23.6
Additions	1.6	–	2.5	4.1
Disposals	(0.2)	–	–	(0.2)
Exchange differences	(5.8)	–	(1.5)	(7.3)
At 31 December 2016	33.0	–	30.3	63.3
Accumulated amortisation and impairment				
At 1 January 2015	19.5	10.2	3.3	33.0
Charge for the year	4.4	2.5	0.3	7.2
Disposals	(2.2)	(12.3)	–	(14.5)
Exchange differences	(1.1)	(0.4)	0.3	(1.2)
At 31 December 2015	20.6	–	3.9	24.5
Charge for the year	4.5	–	2.8	7.3
Disposals	(0.2)	–	–	(0.2)
Impairment	–	–	0.6	0.6
Exchange differences	(3.7)	–	(0.1)	(3.8)
At 31 December 2016	21.2	–	7.2	28.4
Carrying amount:				
At 31 December 2015	16.8	–	1.8	18.6
At 31 December 2016	11.8	–	23.1	34.9

The table above includes software under development of \$3.8 million (2015: \$2.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. Property, plant and equipment

(in \$ millions)	Vessels	Operating equipment	Land and buildings	Other assets	Total
Cost					
At 1 January 2015	5,333.9	526.6	505.1	90.8	6,456.4
Additions	539.9	72.9	47.9	9.8	670.5
Reclassified as held for sale	–	–	(1.1)	–	(1.1)
Exchange differences	(83.0)	(24.3)	(43.0)	(6.0)	(156.3)
Disposals	(320.4)	(11.3)	(2.8)	(4.3)	(338.8)
Transfer	(276.9)	285.6	–	(8.7)	–
At 31 December 2015	5,193.5	849.5	506.1	81.6	6,630.7
Acquisition of business	–	0.8	0.2	0.3	1.3
Additions	231.6	11.3	22.1	1.8	266.8
Exchange differences	(191.3)	(55.5)	(12.9)	(7.8)	(267.5)
Disposals	(164.7)	(18.2)	(0.3)	(7.8)	(191.0)
Transfer	(55.5)	53.3	0.1	2.1	–
At 31 December 2016	5,013.6	841.2	515.3	70.2	6,440.3
Accumulated depreciation and impairment					
At 1 January 2015	1,510.2	199.4	118.7	63.1	1,891.4
Charge for the year	279.4	63.0	26.7	17.3	386.4
Impairment	125.2	3.3	8.0	–	136.5
Reclassified as held for sale	–	–	(0.5)	–	(0.5)
Exchange differences	(24.1)	(5.7)	(6.4)	(4.0)	(40.2)
Eliminated on disposals	(284.8)	(10.7)	(2.1)	(4.3)	(301.9)
Transfer	(187.0)	194.6	–	(7.6)	–
At 31 December 2015	1,418.9	443.9	144.4	64.5	2,071.7
Charge for the year	247.7	74.0	24.2	8.6	354.5
Impairment	101.4	20.6	35.9	–	157.9
Exchange differences	(64.3)	(24.1)	(2.8)	(4.1)	(95.3)
Eliminated on disposals	(155.6)	(8.6)	(0.1)	(7.7)	(172.0)
Transfer	(13.2)	13.2	–	–	–
At 31 December 2016	1,534.9	519.0	201.6	61.3	2,316.8
Carrying amount:					
At 31 December 2015	3,774.6	405.6	361.7	17.1	4,559.0
At 31 December 2016	3,478.7	322.2	313.7	8.9	4,123.5

The table above includes assets under construction of \$859.0 million (2015: \$1,033.0 million) including *Seven Cruzeiro*, *Seven Kestrel* and *Seven Arctic*.

An impairment test was performed at 31 December 2016. The continued challenging business environment has adversely impacted both current market valuations and expected future utilisation of specific vessels, operating equipment and certain land and buildings. Impairment charges have been recognised to reduce the carrying amounts of specific assets to their recoverable amount defined as the higher of value-in-use or fair value less costs of disposal.

Fair value less costs of disposal was estimated in line with Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement' and was determined by Management, based on recent similar market transactions, an assessment of internal estimates and independent external valuations. Fair value was reduced by estimated costs of disposal where these could be reliably estimated. Value-in-use was estimated in line with Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement' and was determined based on calculations using cash flow projections for the remaining estimated useful lives of the individual assets.

An impairment charge of \$79.2 million was recognised in respect of eight owned vessels in order to reduce the carrying amounts of the vessels to their recoverable amounts which were measured as estimated fair value less costs of disposal. Following impairment, the aggregate recoverable amount of these vessels was \$174.6 million. An impairment charge of \$22.2 million was recognised as a result of reducing the carrying amount of specific items of vessel related equipment to \$nil.

An impairment charge of \$20.6 million was recognised as a result of reducing the carrying amount of specific ROVs and items of mobile equipment to a recoverable amount of \$nil.

An impairment charge of \$35.9 million was recognised as a result of reducing the carrying amount of specific buildings and leasehold improvements to a recoverable amount of \$nil.

Of the \$157.9 million impairment charge, \$100.2 million is reported within the Corporate operating segment, \$48.8 million is reported within the SURF and Conventional operating segment and \$8.9 million is reported within the i-Tech Services operating segment.

16. Interest in associates and joint ventures

At 31 December 2016 the Group had interests in one associate and eight joint ventures.

	Year end	Country of registration	Operating segment	Classification	Subsea 7 ownership %
Global Ocean	31 December	Nigeria	SURF and Conventional	Associate	40
Eidesvik Seven	31 December	Norway	SURF and Conventional	Joint Venture	50
ENMAR	31 December	Mozambique	SURF and Conventional	Joint Venture	51
Normand Oceanic	31 December	Norway	SURF and Conventional	Joint Venture	50
SapuraAcergy ^(a)	31 January	Malaysia	SURF and Conventional	Joint Venture	50
Seaway Heavy Lifting	31 December	Cyprus	Corporate	Joint Venture	50
SIMAR	31 December	Angola	SURF and Conventional	Joint Venture	49
Subsea 7 Malaysia	31 December	Malaysia	SURF and Conventional	Joint Venture	30
Belmet 7	31 December	Ghana	SURF and Conventional	Joint Venture	49

(a) SapuraAcergy is the collective term for the Group's investments in its joint ventures SapuraAcergy Assets Pte Ltd and SapuraAcergy Sdn. Bhd. Subsea 7 has 50% equity ownership of SapuraAcergy Sdn. Bhd. Subsea 7 has 51% equity ownership in SapuraAcergy Assets Pte Ltd, however, 1% is subject to a put and call option for the benefit of its joint venture partner.

For all entities, with the exception of Seaway Heavy Lifting, which has a principal place of business in the Netherlands, the principal place of business is consistent with the country of registration. The proportion of voting rights is consistent with the proportion of ownership interest.

All investments in associates and joint ventures are accounted for using the equity method. Financial information for the year ended 31 December 2016 is used for all entities. The movement in the balance of equity investments was as follows:

For the year (in \$ millions)	2016	2015
At year beginning	368.5	373.8
Share of net income of associates and joint ventures	46.4	63.4
Dividends recognised by the Group	(38.2)	(65.2)
Increase in investment	-	0.2
Disposal of investment in associate	(0.8)	-
Net reclassification of negative investment balance	1.0	(0.5)
Share of other comprehensive income of associates and joint ventures	2.2	7.3
Exchange differences	(0.6)	(10.5)
At year end	378.5	368.5

Disposal of investment in associate

In 2016 the Group disposed of its 49% ownership interest in Deep Seas Insurance Limited through a sale, on an arms-length basis, to Siem Industries Inc., a related party. The purchase price was equal to the carrying amount of the Group's investment which was equivalent to its ownership interest in the net assets of the entity.

Summarised financial information

The following tables provide summarised financial information for those associates and joint ventures which are determined to be material to the Group. The amounts reflect the Group's contractual entitlement and include amounts reported in the respective entity's financial statements, IFRS adjustments where the financial statements are not prepared in accordance with IFRS and adjustments made when using the equity method. All amounts are presented before the elimination of transactions with members of the Subsea 7 S.A. Group.

SapuraAcergy

The Group holds a 50% ownership interest in SapuraAcergy which is an engineering and construction contractor providing planning, design and delivery of integrated offshore oil and gas development projects in the Asia Pacific region. The entity complements the core products and service offerings of the Group.

During 2016, the Group did not recognise any dividends (2015: \$33.5 million) from SapuraAcergy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16. Interest in associates and joint ventures continued SapuraAcergy continued

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
<i>Selected financial information:</i>		
Revenue	95.6	165.8
Other expenses	(65.3)	(125.5)
Depreciation and amortisation	(17.1)	(17.2)
Finance costs	(0.7)	(1.8)
Income before taxes	12.5	21.3
Taxation	(0.8)	(10.7)
Net income	11.7	10.6
Other comprehensive income	–	0.5
Total comprehensive income	11.7	11.1
Group's share of total income for the year	5.9	5.6

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
<i>Selected financial information:</i>		
Non-current assets	166.8	182.2
Current assets	143.8	180.0
Cash and cash equivalents (as included in current assets above)	124.3	94.6
Current liabilities	56.9	120.2
Total equity	253.7	242.0
Group's share of total equity	126.9	121.0
<i>Reconciliation to carrying amount:</i>		
Investment	1.8	1.8
Group's carrying amount of the investment	128.7	122.8

Significant restrictions

SapuraAcergy is regulated by the Central Bank of Malaysia in respect of the repatriation of funds. Dividends are restricted to 70% of net income in the year to which the dividend relates.

Guarantee arrangements

At 31 December 2016, SapuraAcergy had an \$82.8 million (2015: \$82.8 million) multi-currency revolving credit and guarantee facility, 50% of which is guaranteed by Subsea 7 S.A. Details are contained in Note 26 'Borrowings'.

Seaway Heavy Lifting

The Group holds a 50% ownership interest in Seaway Heavy Lifting which is a leading offshore contractor to offshore energy services industries with expertise in three areas of offshore activity which complement the core products and service offerings of the Group: the installation of offshore wind farm foundations, heavy lifting operations for oil and gas structures and the decommissioning of redundant offshore structures.

During 2016, the Group recognised dividends of \$37.0 million (2015: \$20.0 million) from Seaway Heavy Lifting.

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
<i>Selected financial information:</i>		
Revenue	398.0	490.7
Other expenses	(302.2)	(317.0)
Depreciation and amortisation	(37.6)	(37.2)
Finance costs	(8.2)	(10.3)
Income before taxes	50.0	126.2
Taxation	(1.3)	(5.2)
Net income	48.7	121.0
Other comprehensive income	3.6	8.7
Total comprehensive income	52.3	129.7
Group's share of total income for the year	26.2	64.9

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
<i>Selected financial information:</i>		
Non-current assets	519.2	546.7
Non-current liabilities	119.4	189.5
Non-current financial liabilities (excluding trade and other payables and provisions)	119.4	189.5
Current assets	280.6	217.0
Cash and cash equivalents (as included in current assets above)	188.4	158.0
Current liabilities	288.5	160.7
Total equity	391.9	413.5
Group's share of total equity	196.0	206.8
Group's carrying amount of the investment	196.0	206.8

Significant restrictions

Dividend payments from Seaway Heavy Lifting are restricted to 75% of net income of the previous year and can only be paid provided certain other financial conditions and restrictions have been met.

Guarantee arrangements

At 31 December 2016 Seaway Heavy Lifting had issued guarantees under its EUR 100 million revolving credit and guarantee facility and its EUR 40 million guarantee facility of \$81.7 million (2015: \$38.5 million) and \$13.7 million (2015: \$12.8 million) respectively.

Capital and operating lease commitments

At 31 December 2016, Seaway Heavy Lifting had capital commitments of \$2.1 million (2015: \$1.9 million) and operating lease commitments of \$2.8 million (2015: \$1.6 million).

Individually immaterial associates and joint ventures

The carrying amount of the Group's interests in individually immaterial associates and joint ventures at 31 December 2016 was \$53.8 million (2015: \$38.9 million).

Summarised aggregated financial information for the Group's interests in associates and joint ventures which are individually immaterial is shown below. Amounts disclosed represent the aggregate of the Group's share in individual associates and joint ventures. Amounts are presented before the elimination of transactions with other Group undertakings.

For the year ended (in \$ millions)	Interest in associates		Interest in joint ventures	
	2016 31 Dec	2015 31 Dec	2016 31 Dec	2015 31 Dec
<i>Summarised financial information:</i>				
Aggregated net income/(loss)	0.4	(0.6)	15.7	(1.8)
Aggregated other comprehensive income	–	0.2	0.4	2.4
Aggregated total comprehensive income/(loss)	0.4	(0.4)	16.1	0.6

17. Advances and receivables

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Non-current amounts due from associates and joint ventures	8.6	71.4
Capitalised fees for long-term loan facilities	4.7	3.7
Deposits held by third parties	0.8	1.1
Other receivables	20.3	24.5
Total	34.4	100.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. Inventories

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Materials and non-critical spares	17.5	21.6
Consumables	21.5	24.5
Total	39.0	46.1

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Total cost of inventory charged to the Consolidated Income Statement	43.4	67.0
Write-down of inventories charged to the Consolidated Income Statement	7.1	6.9
Reversal of provision for obsolescence credited to the Consolidated Income Statement	(0.1)	(0.6)

Inventories included a provision for obsolescence as at 31 December 2016 of \$9.1 million (2015: \$7.2 million). There were no inventories pledged as security.

19. Trade and other receivables

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Trade receivables	291.1	402.9
Provision for impairment of receivables	(32.5)	(23.0)
Net trade receivables	258.6	379.9
Current amounts due from associates and joint ventures	33.6	33.8
Advances to suppliers	9.8	5.0
Other taxes receivable	90.8	99.6
Other receivables	106.8	65.8
Total	499.6	584.1

Details of how the Group manages its credit risk and further analysis of the trade receivables balance can be found in Note 33 'Financial instruments'. Other taxes receivable related to value added tax, sales tax, withholding tax, corporation tax, social security and other indirect taxes.

Other receivables included insurance receivables.

At 31 December 2016 the provision for impairment of receivables amounted to \$32.5 million (2015: \$23.0 million). The movements in the provision were as follows:

in \$ millions)	Total
At 1 January 2015	(10.2)
Additional provision for the year	(18.7)
Utilised/released during the year	5.1
Exchange differences	0.8
At 31 December 2015	(23.0)
Additional provision for the year	(16.2)
Utilised/released during the year	5.5
Exchange differences	1.2
At 31 December 2016	(32.5)

Trade receivables due from associates and joint ventures are shown net of provisions for impairment of \$12.4 million (2015: \$3.9 million).

20. Other accrued income and prepaid expenses

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Unbilled revenue	94.7	107.1
Prepaid expenses	122.0	45.3
Total	216.7	152.4

Unbilled revenue related to work completed on day-rate contracts, which had not been billed to clients as at the balance sheet date.

Prepaid expenses arise in the normal course of business and represent expenditure which has been deferred and which will be recognised in the Consolidated Income Statement within twelve months of the balance sheet date.

21. Construction contracts

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Contracts in progress		
Construction contracts – assets	79.7	278.1
Construction contracts – liabilities	(536.2)	(458.9)
Total	(456.5)	(180.8)
Contract costs incurred plus recognised net profits less recognised losses to date	3,370.7	8,794.2
Less: progress billings	(3,827.2)	(8,975.0)
Total	(456.5)	(180.8)

Revenue from construction contracts in the year was \$2.5 billion (2015: \$3.5 billion).

22. Cash and cash equivalents

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Cash and cash equivalents	1,676.4	946.8

Cash and cash equivalents included amounts totalling \$99.0 million (2015: \$82.0 million) held by Group undertakings in certain countries whose exchange controls significantly restrict or delay the remittance of these amounts to foreign jurisdictions.

23. Issued share capital**Authorised shares**

As at	2016 31 Dec Number of shares	2016 31 Dec in \$ millions	2015 31 Dec Number of shares	2015 31 Dec in \$ millions
Authorised common shares, \$2.00 par value	450,000,000	900.0	450,000,000	900.0

Issued shares

As at	2016 31 Dec Number of shares	2016 31 Dec in \$ millions	2015 31 Dec Number of shares	2015 31 Dec in \$ millions
Fully paid and issued common shares	327,367,111	654.7	327,367,111	654.7
The issued common shares consist of:				
Common shares excluding treasury shares	325,834,107	651.7	325,643,852	651.3
Treasury shares at par value (Note 24)	1,533,004	3.0	1,723,259	3.4
Total	327,367,111	654.7	327,367,111	654.7

24. Treasury shares**Share repurchase plan**

On 31 July 2014, the Group announced a share repurchase programme of up to \$200 million. The programme was approved pursuant to the standing authorisation granted to the Board of Directors at the Annual General Meeting held on 27 May 2011 (as renewed and extended by the Extraordinary General Meeting on 27 November 2014), which allows for the purchase of up to a maximum of 10% of the Group's issued share capital, net of purchases already made.

On 28 July 2015, the Board of Directors authorised a 24 month extension to the Group's share repurchase programme of up to \$200 million. During 2016, the Group repurchased nil (2015: 815,578) shares for a total consideration of \$nil (2015: \$7.6 million). As at 31 December 2016 cumulatively 5,272,656 shares had been repurchased under the July 2014 repurchase programme for a total consideration of \$57.1 million.

All repurchases have been 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 repurchase programmes and stabilisation of financial instruments. As at 31 December 2016 the repurchased shares were held as treasury shares.

At the Extraordinary General Meeting of shareholders on 27 November 2014 the Board of Directors was authorised to cancel any shares repurchased, up to a maximum of 33,216,706 common shares, until 26 May 2020 and to reduce the issued share capital through such cancellations. As at 31 December 2016 4,799,956 repurchased common shares had been cancelled: the Board of Directors is authorised to cancel a further 28,416,750 repurchased common shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. Treasury shares continued

Summary

Movements in treasury shares are shown in the table below:

	2016 Number of shares	2016 in \$ millions	2015 Number of shares	2015 in \$ millions
At year beginning	1,723,259	31.7	5,799,060	75.2
Shares repurchased	–	–	815,578	7.6
Shares cancelled	–	–	(4,799,956)	(50.5)
Shares reissued relating to share-based payments	(190,255)	(0.2)	(91,423)	(0.6)
Balance at year end	1,533,004	31.5	1,723,259	31.7

Consisting of:

As at	2016 31 Dec Number of shares	2015 31 Dec Number of shares
Common shares held as treasury shares by Subsea 7 S.A.	41,428	31,683
Common shares held as treasury shares by employee benefit trusts	1,491,576	1,691,576
Total	1,533,004	1,723,259

As at 31 December 2016, the Group directly held 41,428 (2015: 31,683) treasury shares amounting to 0.01% (2015: 0.01%) of the total number of issued shares. A further 1,241,200 (2015: 1,441,200) common shares were held by an employee benefit trust to satisfy performance shares under the Group's 2009 Long-term Incentive Plan and 250,376 (2015: 250,376) shares were held in a separate employee benefit trust to support specified share option awards.

25. Non-controlling interests

The Group's respective ownership interests in subsidiaries which are non-wholly-owned were as follows:

	Year end	Country of registration	Subsea 7 ownership %
Sonamet	31 December	Angola	55.0
Sonacergy	31 December	Portugal	55.0
Setemares Angola	31 December	Angola	49.0
Globestar Engineering Company	31 December	Nigeria	98.8
Subsea 7 Mexico	31 December	Mexico	52.0
Naviera Subsea 7	31 December	Mexico	49.0
Servicios Subsea 7	31 December	Mexico	52.0
PT Subsea 7 Indonesia	31 December	Indonesia	95.0
Subsea 7 Gabon	31 December	Gabon	99.8
NigerStar 7 Limited	31 December	Nigeria	49.0
NigerStar 7 FZE	31 December	Nigeria	49.0
Subsea 7 Volta Contractors	31 December	Ghana	49.0

For all entities, the principal place of business is consistent with the country of registration. The proportion of voting rights is consistent with the proportion of ownership interest. Financial information recognised in the Group's Consolidated Financial Statements is based on financial information of the entity for the year ended 31 December 2016.

The movement in the equity attributable to non-controlling interests was as follows:

(in \$ millions)	2016	2015
At year beginning	(30.9)	(25.2)
Share of net loss for the year	(17.7)	(20.0)
Dividends	(2.5)	(3.0)
Exchange differences	4.2	17.3
At year end	(46.9)	(30.9)

Summarised financial information for non-wholly-owned subsidiaries which have non-controlling interests that are material to the Group is shown below. All amounts are presented before the elimination of transactions with other Group undertakings.

Subsea 7 Mexico

The Group controls three Mexican subsidiaries: Subsea 7 Mexico (52% ownership), Servicios Subsea 7 (52% ownership) and Naviera Subsea 7 (49% ownership). These entities are closely related and therefore combined financial data, excluding any transactions and balances between the three Mexican entities, has been disclosed below. The financial information disclosed below is included in the Group's consolidated results. No dividends were paid to non-controlling interests of Subsea 7 Mexico during 2016.

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Revenue	27.0	(11.2)
Net loss	(61.2)	(72.4)
Total comprehensive loss	(61.2)	(72.4)
Attributable to non-controlling interests	(29.1)	(34.9)

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Net cash flows generated from/(used in) operating activities	3.0	(15.7)
Net cash flows used in financing activities	(4.8)	(4.7)
Net decrease in cash and cash equivalents	(1.8)	(20.4)

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Current assets	86.8	175.3
Non-current liabilities	48.1	69.9
Current liabilities	270.4	319.5
Net liabilities	231.7	214.1
Total equity	231.7	214.1
Attributable to non-controlling interests	111.3	103.2

At 31 December 2016, Subsea 7 Mexico had net liabilities of \$231.7 million (2015: \$214.1 million). Subsea 7 Mexico had three interest bearing loans outstanding to the Group totalling \$162.8 million (2015: \$163.3 million) including a term loan of \$159.5 million. Interest charged is based on a margin over LIBOR and during 2016 was charged at 3.9% per annum. \$76.6 million (representing 48% of the \$159.5 million term loan) is guaranteed by the shareholder of the non-controlling interest. In addition, Subsea 7 Mexico owed \$68.8 million (2015: \$76.1 million) to certain wholly-owned subsidiaries of the Group for vessels provided and services rendered. In total, Subsea 7 Mexico owed \$231.6 million (2015: \$239.4 million) to certain wholly-owned subsidiaries of the Group.

The market outlook for Subsea 7 Mexico is uncertain due, in part, to the current and forecast lower oil and gas price environment. This together with Subsea 7 Mexico's current financial position substantially increases the risk that Subsea 7 Mexico will be unable to repay in full the outstanding loans and trade payables due to certain wholly-owned subsidiaries of the Group. The \$76.6 million term loan guarantee provided by the shareholder of the non-controlling interest may not be fully collectible depending on the financial position of the guarantor.

If Subsea 7 Mexico were unable to repay the amounts due and the Group was unable to collect the amount guaranteed by the shareholder of the non-controlling interest, equity attributable to shareholders of the parent company would be adversely affected. In light of these risks the financial exposure to the shareholders of the parent company is estimated to be approximately \$100.0 million. If this financial exposure were to crystallise in full, the impact would be to decrease equity attributable to shareholders of the parent company by approximately \$100.0 million and increase equity attributable to non-controlling interests by approximately \$100.0 million. There would be no impact on the Consolidated Income Statement, the Consolidated Cash Flow Statement or total equity of the Group. The calculation of earnings per share is not expected to be significantly impacted.

26. Borrowings

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
\$700 million 1.00% convertible bonds due 2017 (Note 27)	427.3	523.9
Total	427.3	523.9
Consisting of:		
Non-current portion of borrowings	–	523.9
Current portion of borrowings	427.3	–
Total	427.3	523.9

Commitment fees expensed during the year in respect of unused lines of credit totalled \$3.4 million (2015: \$1.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. Borrowings continued

Facilities

The multi-currency revolving credit and guarantee facility

The Group entered into a \$500 million multi-currency revolving credit and guarantee facility on 3 September 2014. Effective from 21 March 2016 the Group increased the value of this facility to \$750 million. The facility is with several banks and is available for the issuance of guarantees, up to a limit of \$200 million, a combination of guarantees and cash drawings, or is available in full for cash drawings. The facility, which previously was due to mature on 3 September 2019, was extended effective from 9 November 2016, \$94 million matures in September 2019 and \$656 million matures in September 2021. The facility is guaranteed by Subsea 7 S.A. and Subsea 7 Finance (UK) PLC. The facility was unutilised at 31 December 2016.

The Export Credit Agency (ECA) senior secured facility

In July 2015 the Group entered into a \$357 million senior term loan facility secured on two vessels under construction. The facility is provided 90% by an Export Credit Agency (ECA) and 10% by two banks and is available for general corporate purposes. The ECA tranche has a twelve-year maturity and a twelve-year amortising profile. The bank tranche has a five-year maturity and a fifteen-year amortising profile, in all cases from delivery of the vessels. If the bank tranche is not refinanced satisfactorily after five years then the ECA tranche also becomes due. The facility may be drawn prior to the delivery of the vessels; upon delivery, if unutilised, the facility will terminate. The facility is guaranteed by Subsea 7 S.A. and Subsea 7 Finance (UK) PLC. During the final quarter of 2016, following re-assessment of the vessel construction programme, the maximum amount available to be drawn under the facility was expected to be \$301.3 million. As at 31 December 2016 the facility was unutilised.

Utilisation of facilities

As at (in \$ millions)	2016	2016	2016	2015	2015	2015
	31 Dec Utilised	31 Dec Unutilised	31 Dec Total	31 Dec Utilised	31 Dec Unutilised	31 Dec Total
Committed borrowings facilities	–	1,051.3	1,051.3	–	857.0	857.0

Bank overdraft and short-term lines of credit

Overdraft facilities consisted of \$6.5 million (2015: \$16.7 million), of which \$nil (2015: \$nil) was drawn as at 31 December 2016.

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 as at 31 December 2016 was \$451.3 million (2015: \$476.1 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 *Normand Oceanic* and has a \$152.3 million loan facility which it used to partially finance the purchase of the vessel. The loan has a maturity date of 20 July 2017 and an outstanding balance at 31 December 2016 of \$109.1 million (2015: \$119.3 million). NOAS also entered into an interest rate swap, maturing on 19 July 2017, 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 each guaranteeing 50% of the payment obligations and liabilities under the loan and hedging agreements.

On 27 July 2016 Eidesvik Seven AS, a 50% owned joint venture between Eidesvik Offshore ASA and the Group, drew down NOK 572 million from a NOK 600 million bank loan facility to repay a shareholder loan from the Group. The facility, secured on *Seven Viking*, is fully guaranteed by Subsea 7 S.A. with a 50% counter-guarantee from Eidesvik Shipping AS and has a termination date of 31 January 2021. The outstanding balance at 31 December 2016 was NOK 561 million (\$64.6 million).

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 SapuraKencana Petroleum Berhad. At 31 December 2016, SASB had an \$82.8 million multi-currency facility in place (2015: \$82.8 million multi-currency facility). Both Subsea 7 S.A. and SapuraKencana Petroleum Berhad had issued guarantees for 50% of the financing respectively. The facility consisted of \$40.0 million available for the issuance of the principal bank guarantees and \$30.0 million available for letters of credit, a revolving credit facility totalling \$5.5 million and a \$7.3 million foreign exchange facility. At 31 December 2016, the amount drawn under the principal bank guarantee was \$30.4 million (2015: \$35.4 million); all other facilities were undrawn (2015: \$nil).

27. Convertible bonds**\$700 million 1.00% convertible bonds due 2017 (2017 Bonds)**

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 of \$697.9 million, after deduction of issuance related costs.

The net proceeds received from the issue of the 2017 Bonds were allocated between the liability and equity components as follows. The equity component represented the fair value of the embedded option to convert the liability into equity of the Group.

(in \$ millions)	2017 Bonds
Principal value of convertible bonds issued	700.0
Proceeds of issue (net of transaction costs)	697.9
Liability component at date of issue	(617.3)
Transfer to equity reserve at date of issue	80.6

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 allowed them to convert the convertible bonds into common shares with an initial conversion price of \$30.10 per share at the date of issue, equivalent to 23,255,814 common shares or approximately 7.1% of Subsea 7 S.A.'s issued share capital (excluding treasury shares held).

At 31 December 2016, \$435.6 million (2015: \$548.2 million) at par value of the 2017 Bonds, excluding those bonds repurchased and held by the Group, were outstanding with a conversion price at that date of \$28.39 (2015: \$28.39) per share, adjusted for the payment of dividends since issuance. This was equivalent to 15,343,431 (2015: 19,309,616) common shares, or 4.7% (2015: 5.9%) of Subsea 7 S.A.'s issued share capital (excluding treasury shares held). The conversion price will continue to be adjusted in line with the 2017 Bonds' terms and conditions.

There was 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 had been redeemed or converted into common shares. The option lapsed as the share price of the common shares did not exceed 130% of the conversion price during the relevant period.

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 publicly quoted or listed debt instruments
- 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.

Bond repurchases

During 2016 the Group repurchased \$112.6 million (par value) of the 2017 Bonds for \$106.0 million in cash (equivalent to an average 94.1% of the par value). Each repurchase was treated as payment for the liability and equity component of the bonds. This treatment resulted in a gain on repurchase of the liability of \$3.0 million which was recognised within finance income in the Consolidated Income Statement. The repurchase of the convertible element of the bond resulted in a \$0.4 million credit being recognised within retained earnings. These bonds have not been cancelled but continue to be held by the Group and are available for reissue at a future date. Following the repurchases of the \$112.6 million of bonds, \$13.0 million of the related equity component was transferred from equity reserve to retained earnings.

Movements in convertible bonds

The movement in the liability components of the convertible bonds was as follows:

(in \$ millions)	2016	2015
At year beginning	523.9	576.2
Bonds repurchased	(108.8)	(66.7)
Interest charged (Note 8)	16.8	20.4
Interest paid	(4.6)	(6.0)
At year end (Note 26)	427.3	523.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27. Convertible bonds continued

Movements in convertible bonds continued

The interest charged in the year was calculated by applying an effective interest rate of 3.5%.

The movement in the equity reserve from the reclassification of the equity component of the convertible bonds from equity reserve to retained earnings was as follows:

For the year (in \$ millions)	2016	2015
At year beginning	63.2	71.2
Reclassification of equity component of bonds repurchased in year	(13.0)	(8.0)
At year end	50.2	63.2

28. Other non-current liabilities

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Accrued salaries and benefits	11.0	16.2
Non-current amounts due to associates and joint ventures	1.8	1.8
Other	38.8	55.1
Total	51.6	73.1

29. Trade and other liabilities

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Accruals	445.8	684.3
Trade payables	96.4	131.8
Current amounts due to associates and joint ventures	–	5.1
Accrued salaries and benefits	132.5	155.5
Withholding taxes	19.3	13.4
Other taxes payable	78.4	79.3
Other current liabilities	51.3	54.1
Total	823.7	1,123.5

30. Provisions

(in \$ millions)	Claims	Decommissioning	Restructuring	Other	Total
At 1 January 2015	16.1	16.3	8.7	18.1	59.2
Additional provision in the year	6.8	9.4	136.1	24.0	176.3
Utilisation of provision	(1.4)	(3.7)	(65.9)	(4.9)	(75.9)
Unused amounts released during the year	(2.5)	(0.2)	–	(5.0)	(7.7)
Reclassifications	–	–	9.0	(9.0)	–
Exchange differences	(3.5)	(1.4)	(5.2)	(2.2)	(12.3)
At 31 December 2015	15.5	20.4	82.7	21.0	139.6
Additional provision in the year	6.4	5.2	97.1	37.2	145.9
Utilisation of provision	(7.0)	(8.4)	(61.0)	(6.4)	(82.8)
Unused amounts released during the year	(1.7)	(0.6)	(8.3)	(10.4)	(21.0)
Reclassifications	(2.1)	2.1	–	–	–
Exchange differences	1.1	(1.3)	(8.2)	(2.8)	(11.2)
At 31 December 2016	12.2	17.4	102.3	38.6	170.5

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Consisting of:		
Non-current provisions	61.9	47.0
Current provisions	108.6	92.6
Total	170.5	139.6

The claims provision comprises a number of claims made against the Group including disputes, personal injury cases, tax claims and lease disputes, where the timing of resolution is uncertain.

The decommissioning provision is in relation to the Group's obligation to restore leased vessels to their original, or agreed, condition. The costs related to the provision are expected to be incurred in the years the leases cease, which range from 2017 to 2019.

The restructuring provision relates to expenses associated with cost reduction and headcount resizing activities announced by the Group. The provision includes employee termination costs, onerous lease charges and professional fees. The provision is based on statutory requirements and discretionary arrangements for headcount reductions and the best estimate of costs associated with onerous lease contracts. Cash outflows associated with termination costs and professional fees are expected to occur within 2017. Cash outflows associated with onerous leases are expected to occur between 2017 and 2022.

Other provisions include contingent consideration of \$11.5 million and loss provisions on onerous contracts for leases, not associated with restructuring, and day-rate contracts.

31. Commitments and contingent liabilities

Commitments

The Group's commitments as at 31 December 2016 consisted of:

- commitments to purchase property, plant and equipment from external vendors of \$63.3 million (2015: \$279.5 million) mainly related to the construction of *Seven Kestrel* and *Seven Arctic*
- operating lease commitments as indicated in Note 32 'Operating lease arrangements'.

Contingent liabilities

A summary of the contingent liabilities is as follows:

(in \$ millions)	2016 Contingent liability recognised	2015	2016 Contingent liability not recognised	2015
At year beginning	4.0	6.0	177.1	267.8
Contingent liability recognised on acquisition	2.8	–	–	–
New assessments (including effect of interest rate changes)	–	–	21.5	73.7
Decrease in unrecognised contingent liabilities	–	–	(27.8)	(64.9)
Exchange differences	0.7	(2.0)	30.6	(99.5)
At year end	7.5	4.0	201.4	177.1

Contingent liabilities recognised in the Consolidated Balance Sheet

As a result of the Combination, and in accordance with IFRS 3 'Business Combinations', a contingent liability of \$9.3 million was recognised in the Consolidated Balance Sheet as at 7 January 2011 in respect of claims made against Subsea 7 do Brasil Serviços Ltda, equivalent to \$4.7 million as at 31 December 2016 (2015: \$3.9 million). A further \$3.3 million of contingent liabilities were recognised in the Consolidated Balance Sheet as at 7 January 2011 in relation to several other smaller claims. Subsequently this has been reassessed and amounted to \$0.1m as at 31 December 2016 (2015: \$0.1 million).

As part of the accounting for the business combination of Pioneer Lining Technology Limited, IFRS 3 'Business Combinations' required the Group to recognise a contingent liability of £2.2 million, equivalent to \$2.8 million at the acquisition date, in respect of contingent amounts payable to a third party following the acquisition of intangible assets in 2009. The contingent liability recognised within the Consolidated Balance Sheet at 31 December 2016 was \$2.7 million.

Contingent liabilities not recognised in the Consolidated Balance Sheet

Between 2009 and 2016, the Group's Brazilian businesses were audited and formally assessed for ICMS and federal taxes (including import duty) by the Brazilian state and federal tax authorities. The amount assessed including penalties and interest as at 31 December 2016 amounted to BRL 670.1 million, equivalent to \$201.4 million (2015: BRL 706.7 million, equivalent to \$177.1 million). The Group has challenged these assessments with some cases being dismissed by the tax authorities. No provision has been made in relation to these cases.

A contingent liability has been disclosed for those cases where the disclosure criteria has been met however the Group does not believe that likelihood of payment is probable.

In the ordinary course of business, various claims, litigation and complaints have been filed against the Group in addition to those specifically referred to above. Although the final resolution of any such other matters could have a material effect on its operating results for a particular reporting period, the Group believes that it is not probable that these matters would materially impact its Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32. Operating lease arrangements

The Group as lessee

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Payments made under operating leases	186.2	276.3

The total operating lease commitments as at 31 December 2016 were \$373.1 million (2015: \$507.0 million). These included vessel charter hire obligations of \$184.8 million (2015: \$297.5 million). The remaining obligations as at 31 December 2016 related to office facilities and other equipment of \$188.3 million (2015: \$209.5 million).

The Group's outstanding lease commitments fall due as follows:

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Within one year	119.1	185.8
Years two to five inclusive	187.2	255.2
After five years	66.8	66.0
Total	373.1	507.0

The operating leases have various terms and future renewal options. Renewal options which have not yet been exercised are excluded from the outstanding commitments.

33. Financial instruments

Derivative financial instruments recognised in the Consolidated Balance Sheet were as follows:

As at (in \$ millions)	31 Dec 2016 Assets	31 Dec 2016 Liabilities	31 Dec 2016 Total	31 Dec 2015 Assets	31 Dec 2015 Liabilities	31 Dec 2015 Total
Non-current						
Forward foreign exchange contracts	25.2	(12.2)	13.0	4.4	(8.4)	(4.0)
Interest rate swap	–	–	–	–	(1.0)	(1.0)
Total	25.2	(12.2)	13.0	4.4	(9.4)	(5.0)
Current						
Forward foreign exchange contracts	53.2	(40.7)	12.5	18.2	(12.2)	6.0
Total	53.2	(40.7)	12.5	18.2	(12.2)	6.0

Significant accounting policies

Details of the significant accounting policies adopted including the basis of measurement and recognition of income and expense in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 'Significant accounting policies'.

The Group's financial instruments are classified as follows:

As at (in \$ millions)	2016 31 Dec Carrying amount	2015 31 Dec Carrying amount
Financial assets		
Cash and cash equivalents	1,676.4	946.8
Financial assets at fair value through profit or loss – derivative instruments	78.4	20.9
Derivative instruments in designated hedge accounting relationships	–	1.7
Loans and receivables:		
Net trade receivables (Note 19)	258.6	379.9
Non-current amounts due from associates and joint ventures (Note 17)	8.6	71.4
Current amounts due from associates and joint ventures (Note 19)	33.6	33.8
Other receivables	84.1	10.3
Financial liabilities		
Financial liabilities at fair value through profit or loss – derivative instruments	(52.9)	(21.6)
Other financial liabilities:		
Trade payables (Note 29)	(96.4)	(131.8)
Non-current amounts due to associates and joint ventures (Note 28)	(1.8)	(1.8)
Current amounts due to associates and joint ventures (Note 29)	–	(5.1)
Borrowings – convertible bonds (Note 27)	(427.3)	(523.9)
Contingent consideration (Note 30)	(11.5)	–
Other payables	(27.2)	(41.8)

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)	2016 31 Dec Carrying amount	2016 31 Dec Fair value	2015 31 Dec Carrying amount	2015 31 Dec Fair value
Financial liabilities				
Borrowings – Convertible bonds (Note 27) – Level 2	(427.3)	(435.3)	(523.9)	(515.7)

The fair value of the liability components of convertible bonds is determined by matching the maturity profile of the bond to market interest rates available to the Group. As at 31 December 2016 the interest rate available was 2.2% (2015: 4.7%).

Financial risk management objectives

The Group monitors and manages the financial risks relating to its financial 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 financial risk exposures. The use of financial instruments is governed by the Group's policies as reviewed and approved by the Board of Directors and includes policies on foreign exchange risk, interest rate risk, credit risk and the investment of excess liquidity.

The Group reviews compliance with policies and exposure limits on a regular basis and it does not enter into or trade financial instruments for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risks, including forward foreign exchange contracts to hedge the exchange rate risk arising on future revenues, operating costs and capital expenditure.

In the year ended 31 December 2016, there was no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Group conducts operations in many countries and, as a result, is exposed to currency fluctuations related to revenue and expenditure in the normal course of business. The Group has in place risk management policies that seek to limit the adverse effects of fluctuations in foreign currency exchange rates on its financial performance.

The Group's reporting currency is the US Dollar. Revenue and operating expenses are principally denominated in the reporting currency of the Group. The Group also has significant operations denominated in British Pound Sterling and Euro as well as other cash flows in Angolan Kwanza, Australian Dollar, Brazilian Real, Canadian Dollar, Danish Krone, Egyptian Pound, Ghanaian Cedi, Mexican Peso, Nigerian Naira, Norwegian Krone and Singapore Dollar.

Foreign currency sensitivity analysis

The Group considers that its principal currency exposure is to movements in the US Dollar against other currencies. The US Dollar is the Group's reporting currency, the functional currency of many of its subsidiaries and the currency of a significant volume of the Group's cash flows.

The Group performed a sensitivity analysis to indicate the extent to which net income and equity would be affected by changes in the exchange rate between the US Dollar and other currencies in which the Group transacts. The analysis is based on a strengthening of the US Dollar by 10% against each of the other currencies in which the Group has significant assets and liabilities at the end of each respective period. A movement of 10% reflects a reasonably possible sensitivity when compared to historical movements over a three to five-year timeframe. The Group's analysis of the impact on net income in each year is based on monetary assets and liabilities in the Consolidated Balance Sheet at the end of each respective year.

The Group's analysis of the impact on equity includes the impacts on the translation reserve in respect of intra-group balances that form part of the net investment in a foreign operation and the hedging reserve, included within other reserves, in respect of designated hedges in addition to net income movements. The amounts disclosed have not been adjusted for the impact of taxation.

A 10% strengthening in the US Dollar exchange rate against other currencies in which the Group transacts would increase net foreign currency exchange gains reported in other gains and losses by \$53.8 million (2015: \$47.8 million). The impact would be an increase in reported equity of \$40.4 million (2015: increase of \$31.6 million).

Forward foreign exchange contracts

The Group primarily enters into forward foreign exchange contracts with maturities of up to three years, to manage the risk associated with transactions with a foreign exchange exposure risk. These transactions consist of highly probable cash flow exposures relating to revenue, operating expenditure and capital expenditure.

The Group does not use derivative instruments to hedge the exposure to exchange rate fluctuations from its net investments in foreign subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. Financial instruments continued

Foreign currency risk management continued

Forward foreign exchange contracts continued

The following table details the forward foreign exchange contracts outstanding:

As at 31 December 2016

(in \$ millions)	Contracted amount by contract maturity				Fair value by contract maturity	
	Buy		Sell		Maturity	
	< 1 Year	1-5 Years	< 1 Year	1-5 Years	< 1 Year	1-5 Years
British Pound Sterling	30.1	18.9	100.9	-	(3.0)	(1.6)
Canadian Dollar	-	-	9.6	-	-	-
Danish Krone	2.8	-	-	-	-	-
Euro	192.1	55.1	8.3	-	0.3	(0.9)
Norwegian Krone	99.6	-	2.3	-	(2.7)	-
Australian Dollar	18.6	-	6.2	-	0.1	-
US Dollar	118.6	109.6	-	-	17.8	15.5
Total	461.8	183.6	127.3	-	12.5	13.0

As at 31 December 2015

(in \$ millions)	Contracted amount by contract maturity				Fair value by contract maturity	
	Buy		Sell		Maturity	
	< 1 Year	1-5 Years	< 1 Year	1-5 Years	< 1 Year	1-5 Years
British Pound Sterling	60.1	20.7	25.4	-	10.1	3.2
Canadian Dollar	-	-	6.1	-	0.2	-
Danish Krone	11.9	-	0.9	-	1.4	-
Euro	137.4	10.8	-	-	4.1	1.3
Norwegian Krone	71.1	24.4	-	-	(9.4)	(8.4)
Australian Dollar	-	-	15.6	-	0.1	-
US Dollar	12.0	-	18.0	-	(0.6)	-
Total	292.5	55.9	66.0	-	5.9	(3.9)

Hedge accounting

The Group has a number of outstanding forward foreign exchange contracts. At 31 December 2016 none of these contracts had been designated as hedging instruments. At December 2015 the following forward foreign currency exchange rate contracts were designated as hedging instruments:

(in \$ millions)	Contracted amount by contract maturity				Fair value by contract maturity	
	Buy		Sell		Maturity	
	< 1 Year	1-5 Years	< 1 Year	1-5 Years	< 1 Year	1-5 Years
Danish Krone	10.4	-	-	-	1.7	-
Total	10.4	-	-	-	1.7	-

The hedging reserve, included within other reserves in the Consolidated Balance Sheet, represents hedging gains and losses recognised on the effective portion of cash flow hedges. The movement in the hedging reserve was as follows:

(in \$ million)	2016	2015
As at year beginning	2.2	(7.6)
Gains/(losses) on the effective portion of derivative financial instruments deferred to equity:		
revenue hedging	-	(5.1)
operating expenses hedging	7.3	1.0
income tax gains/(losses) recognised in equity	0.5	(1.5)
Cumulative deferred (gains)/losses transferred to Consolidated Income Statement (see below):		
revenue hedging	-	18.3
operating expenses hedging	(10.0)	(2.8)
Cumulative deferred losses transferred to initial carrying amount:		
capital expenditure hedging	-	(0.1)
At year end	-	2.2

Cumulative gains and losses transferred from the hedging reserve to the Consolidated Income Statement

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Cumulative deferred losses recognised in revenue	–	(18.1)
Cumulative deferred gains recognised in operating expenses	9.9	3.2
Cumulative deferred gains/(losses) recognised in other gains and losses	0.1	(0.6)
Total	10.0	(15.5)

Operating expenses hedging

The Group uses forward foreign exchange contracts to manage a proportion of its operating expense transaction exposures.

At 31 December 2016, the hedging reserve balance included \$nil (2015: gain of \$2.2 million arising on operating expense hedges maturing on or before 3 August 2016).

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 derivative financial instruments is deferred in equity within other reserves as hedging reserves in the Consolidated Balance Sheet. The resulting cumulative gains or losses will be reclassified to the Consolidated Income Statement upon the recognition of the underlying transaction or the discontinuance of a hedging relationship. Movements in respect of effective hedges are detailed in the Consolidated Statement of Changes in Equity.

The gains or losses relating to the ineffective portion of cash flow hedges are recognised in the Consolidated Income Statement and the net amount recognised for the year was \$nil (2015: \$nil).

Interest rate risk management

The Group places surplus funds in the money markets to generate an investment return for a range of maturities (generally less than six months) ensuring a high level of liquidity and reducing the credit risk associated with the deposits. Changes in the interest rates associated with these deposits will impact the interest income generated.

Interest rate sensitivity analysis

As at 31 December 2016, the Group had not drawn down on available facilities. The Group had significant cash deposits and only fixed rate borrowings. A 1% increase in interest rates would not have a significant impact on the Group's finance costs for the current or prior year.

Credit risk management

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of transacting with creditworthy financial institutions as a means of mitigating the risk of financial loss from defaults. The credit ratings are 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 among approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually and monitored daily. In respect of its clients and vendors. The Group uses credit ratings as well as other publicly available financial information and its own trading records to rate its major counterparties.

The table below shows the carrying amount of amounts on deposit (excluding cash and cash equivalents available on demand of \$425.3 million) as at 31 December. These are graded and monitored internally by the Group based on current external credit ratings issued with 'prime' being the highest possible rating.

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Counterparties rated prime grade	100.0	–
Counterparties rated high grade	378.0	198.9
Counterparties rated upper medium grade	673.2	215.2
Counterparties rated lower medium grade	83.5	41.0
Counterparties rated non-investment grade	16.2	29.0
Not rated	0.2	7.9
Total	1,251.1	492.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. Financial instruments continued

Credit risk management continued

Net trade receivables (Note 19 'Trade and other receivables') arise from a large number of clients, dispersed geographically. Continuous credit evaluation is performed on the recoverability of trade receivables. The following table classifies outstanding balances into three categories:

As at	2016 31 Dec	2015 31 Dec
	Category percentage	Category percentage
National oil and gas companies	10%	9%
International oil and gas companies	41%	35%
Independent oil and gas companies	49%	56%
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. Both international and independent oil and gas companies are mainly publicly or privately owned. International oil and gas companies are generally larger in size and scope than independent oil and gas companies and have midstream and downstream activities supplementing their upstream operations.

The following details the ageing analysis for trade receivables:

As at 31 December 2016

(in \$ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Trade receivables	170.1	72.1	12.6	3.8	258.6
Trade receivables considered impaired	0.3	–	5.3	26.9	32.5
Total trade receivables (Note 19)	170.4	72.1	17.9	30.7	291.1

As at 31 December 2015

(in \$ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Trade receivables	263.5	108.6	7.8	–	379.9
Trade receivables considered impaired	1.0	0.8	10.1	11.1	23.0
Total trade receivables (Note 19)	264.5	109.4	17.9	11.1	402.9

Trade receivables balances beyond the one month ageing category are considered past due but not impaired. Trade receivables considered impaired are balances which are past due and considered not collectable.

The maximum exposure of the Group to credit-related loss of financial instruments is the aggregate of the carrying amount of the financial assets as summarised on page 88.

Concentration of credit risk

During the year, two clients (2015: three clients) contributed individually to more than 10% of the Group's revenue. The revenue from these clients was \$1.1 billion or 31% of total Group revenue (2015: \$1.8 billion or 38%).

The five largest receivables balances by client are shown below:

As at (in \$ millions)	31 Dec 2016
Client A	34.6
Client B	34.0
Client C	32.7
Client D	20.2
Client E	14.2

As at (in \$ millions)	31 Dec 2015
Client A	67.5
Client B	35.5
Client C	32.9
Client D	32.3
Client E	26.6

The client mix for outstanding accounts receivable balances in 2016 is not the same as 2015. The Group does not have any significant credit exposure to any single counterparty as at 31 December 2016. 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 31 December 2016, 26% (2015: 31%) of cash was held at counterparties with a credit rating lower than 'upper medium grade' classification.

Liquidity risk management

The Group has a framework for the management of short, medium and long-term funding and liquidity management requirements. The Group continually monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities. Liquidity risk is managed by maintaining adequate cash and cash equivalent balances and by ensuring available borrowing facilities are in place. Included in Note 26 'Borrowings' are details of the undrawn facilities that the Group has at its disposal.

Liquidity tables

The following details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been prepared based on the undiscounted cash flows relating to financial liabilities based on the earliest date on which the payment can be required. Principal cash flows are as follows:

As at 31 December 2016

(in \$ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Trade payables	92.1	4.3	–	–	96.4
Convertible bonds	–	–	440.0	–	440.0
Loan due to associates and joint ventures	–	–	–	1.8	1.8
Total	92.1	4.3	440.0	1.8	538.2

As at 31 December 2015

(in \$ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Trade payables	128.2	3.6	–	–	131.8
Convertible bonds	–	–	5.5	553.7	559.2
Current amounts due to associates and joint ventures	5.1	–	–	–	5.1
Loan due to associates and joint ventures	–	–	–	1.8	1.8
Total	133.3	3.6	5.5	555.5	697.9

The following table details the Group's liquidity profile for its derivative financial instruments. The table has been prepared based on the undiscounted net cash payments and receipts on the derivative instruments that settle on a net basis and the undiscounted gross payments and receipts on those derivative financial instruments 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 2016

(in \$ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Net settled:					
Foreign exchange forward contracts	–	8.7	27.1	13.1	48.9
Gross settled:					
Foreign exchange forward contract payments	263.0	–	–	–	263.0
Foreign exchange forward contract receipts	(257.6)	–	–	–	(257.6)
Total	5.4	8.7	27.1	13.1	54.3

As at 31 December 2015

(in \$ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Net settled:					
Foreign exchange forward contracts	–	0.7	9.5	8.5	18.7
Interest rate swap	–	–	–	1.0	1.0
Gross settled:					
Foreign exchange forward contract payments	87.3	11.9	6.5	–	105.7
Foreign exchange forward contract receipts	(86.5)	(11.1)	(6.0)	–	(103.6)
Total	0.8	1.5	10.0	9.5	21.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. Financial instruments continued

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders of the parent company.

The capital structure of the Group consists of debt, which includes borrowings disclosed in Note 26 'Borrowings', cash and cash equivalents and equity attributable to shareholders of the parent company, comprising issued share capital, reserves and retained earnings.

The Group monitors capital using a debt service ratio (net debt/Adjusted EBITDA) which is evaluated against certain parameters. Net debt is calculated as the principal value of borrowings plus current year operating lease payments adjusted by a multiplier of six, less cash and cash equivalents.

Debt service

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Principal value of convertible bonds (Note 27)	435.6	548.2
Estimated present value of operating lease obligations ^(a)	1,117.2	1,657.8
Cash and cash equivalents	(1,676.4)	(946.8)
Net debt	(123.6)	1,259.2
Adjusted EBITDA (see Additional information on page 105)	1,141.7	1,216.9
Debt service ratio^(b)	(0.1)x	1.0x

(a) Estimated present value of operating lease obligations is six times current year payments made under operating leases (Note 32 'Operating lease arrangements').

(b) The above is a representation of how the Group calculates net debt and the debt service ratio for illustrative purposes only.

Fair value measurement

Assets and liabilities which are measured at fair value in the Consolidated Balance Sheet and their level of the fair value hierarchy were as follows:

As at (in \$ millions)	2016 31 Dec Level 2	2016 31 Dec Level 3	2015 31 Dec Level 2	2015 31 Dec Level 3
Recurring fair value measurements				
Financial assets:				
Financial assets at fair value through profit or loss – derivative instruments	78.4	–	20.9	–
Derivative instruments in designated hedge accounting relationships	–	–	1.7	–
Financial liabilities:				
Financial liabilities at fair value through profit or loss – derivative instruments	(52.9)	–	(21.6)	–
Contingent consideration	–	(11.5)	–	–

During the year ended 31 December 2016 there were no transfers between levels of the fair value hierarchy. The Group accounts for transfers between levels of the fair value hierarchy from the date of the event or change in circumstance that caused the transfer.

Recurring fair value measurements

Financial assets and financial liabilities

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments
- The fair value of contingent consideration is determined based on current expectations of the achievement of specific targets and milestones calculated using the discounted cash flow method and unobservable inputs
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivative financial instruments, and option pricing models for optional derivative financial instruments.

Assumptions used in determining fair value of financial assets and financial liabilities are as follows:

Loans and receivables

The fair value of loans and receivables is based on their carrying amount which is representative of outstanding amounts owing and takes into consideration potential impairment.

Forward foreign exchange contracts

The fair value of outstanding forward foreign exchange contracts is calculated using quoted foreign exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

Fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

34. Related party transactions**Key management personnel**

Key management personnel include the Board of Directors and the Executive Management Team. Key management personnel at 31 December 2016 included 12 individuals (2015: 13 individuals). The remuneration of these personnel is determined by the Compensation Committee of the Board of Directors of Subsea 7 S.A.

Non-executive Directors

Details of fees paid to Non-executive Directors for the year are set out below:

Name	Annual fee \$	Member of Audit Committee \$	2016 31 Dec \$	2015 31 Dec \$
Kristian Siem	200,000	–	– ^(a)	– ^(a)
Sir Peter Mason KBE	125,000	–	125,000	125,000
Eystein Eriksrud	105,000	6,000	111,000	111,000
Dod Fraser	105,000	14,000	119,000	119,000
Robert Long	105,000	6,000	111,000	111,000
Allen Stevens	105,000	–	105,000	105,000

(a) Mr Siem's fee is included within payments to Siem Industries Inc. as detailed in 'Other related party transactions' on page 96.

Share options outstanding and shareholdings as at 31 December 2016 were as follows:**Share options**

None (2015: one) of the Non-executive Directors held share options in the shares of Subsea 7 S.A. at 31 December 2016.

Shareholdings

Name	Total owned shares
Kristian Siem ^(a)	–
Sir Peter Mason KBE	10,000
Eystein Eriksrud ^(b)	3,100
Dod Fraser	4,000
Robert Long	–
Allen Stevens	10,650

(a) As at 31 December 2016, Siem Industries Inc. which is a company controlled through trusts where Mr Siem and certain members of his family are potential beneficiaries, owned 69,731,931 shares, representing 21.3% of total fully paid and issued common shares of the Company.

(b) Mr Eriksrud is Deputy CEO of Siem Industries Inc. which, as at 31 December 2016, owned 69,731,931 shares representing 21.3% of total fully paid and issued common shares of the Company.

Key management

The remuneration of the Executive Management Team during the year was as follows:

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Salaries and other short-term employee benefits	6.7	8.4
Share-based payments	1.1	1.4
Post-employment benefits	0.1	0.2
Total	7.9	10.0

The compensation of the Chief Executive Officer ('CEO') for the year was \$1.9 million (2015: \$2.4 million) and included base salary, bonus and benefits-in-kind. This amount excludes the IFRS 2 'Share-based payments' charge for any incentive plans of which the CEO is a member.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

34. Related party transactions continued

Key management continued

Share options and performance shares outstanding and shareholdings as at 31 December 2016 were as follows:

Share options

Name	Date of grant	Number of options	Exercise price	Date of expiry
Jean Cahuzac	14 Apr 2008	100,000	NOK 123.00	13 Apr 2018
Nathalie Louys	12 Mar 2008	8,000	\$22.52	11 Mar 2018
Keith Tipson	12 Mar 2008	15,000	NOK 114.50	11 Mar 2018
Øyvind Mikaelen	12 Mar 2008	15,000	NOK 114.50	11 Mar 2018

Shares and performance shares

Name	Total performance shares ^(a)	Total owned shares
Jean Cahuzac	199,392	96,302
Ricardo Rosa	115,396	2,179
John Evans	142,595	32,438
Nathalie Louys	69,038	3,814
Keith Tipson	76,017	23,363
Øyvind Mikaelen	122,396	19,508

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

Transactions with key management personnel

During the year, key management personnel were awarded the rights to 228,000 (2015: 251,500) performance shares under the 2013 Long-term Incentive Plan; refer to Note 35 'Share-based payments' for details of the plan.

Transactions with associates and joint ventures

The Consolidated Balance Sheet included:

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Non-current receivables due from associates and joint ventures (Note 17)	8.6	71.4
Non-current payables due to associates and joint ventures (Note 28)	(1.8)	(1.8)
Trade receivables due from associates and joint ventures (Note 19)	33.6	33.8
Trade payables due to associates and joint ventures (Note 29)	–	(5.1)
Net receivables due from associates and joint ventures	40.4	98.3

Trade receivables due from associates and joint ventures are shown net of provisions for impairment of \$12.4 million (2015: \$3.9 million).

During the year, the Group provided services to associates and joint ventures amounting to \$25.9 million (2015: \$9.1 million), purchased goods and services from associates and joint ventures amounting to \$351.4 million (2015: \$76.1 million) and received \$0.1 million (2015: \$0.3 million) from Deep Seas Insurance in settlement of insurance claims.

At 31 December 2016, the Group had provided long-term loans to joint ventures amounting to \$8.6 million (2015: \$71.4 million). Working capital funding of associates and joint ventures is included within trade receivables due from associates and joint ventures above.

Guarantee arrangements with joint ventures are shown within Note 26 'Borrowings'.

Other related party transactions

During the year the Group participated in related party transactions, all of which were conducted on an arm's length basis.

The Group is an associate of Siem Industries Inc. and is equity accounted for within Siem Industries Inc.'s consolidated financial statements. Payments were made to Siem Industries Inc. in relation to the services provided by Mr Siem and other services totalling \$0.2 million (2015: \$0.2 million). Dividends totalling \$nil (2015: \$nil) were paid to Siem Industries Inc.

The Group disposed of its 49% ownership interest in Deep Seas Insurance through a sale to Siem Industries Inc. for consideration of \$0.8m. The purchase price was equal to the carrying amount of the Group's investment which was equivalent to its ownership interest in the net assets of the entity. Siem Offshore Inc. is an associate of Siem Industries Inc. and Mr Eriksrud is its Chairman and Mr Siem is a member of the Board of Directors. Purchases by the Group from subsidiaries of Siem Offshore Inc. relating to vessel charter costs and provision of crew, totalling \$26.5 million (2015: \$22.2 million), were made during the year.

DSND Bygg AS is ultimately controlled by Siem Industries Inc. Purchases from DSND Bygg AS in relation to the rental of office accommodation totalling \$0.2 million (2015: \$0.2 million) were made during the year, partly offset by recharges for office management services of \$nil (2015: \$0.1 million).

The Group provides rented office accommodation to Siem Offshore Contractors GmbH and Siem Offshore do Brasil S.A. which are both ultimately controlled by Siem Industries Inc. Total rental income for 2016 was \$0.2m (2015: \$nil).

At 31 December 2016, the Group had outstanding balances receivable from Siem Industries Inc, Siem Offshore Contractors GmbH and Siem Offshore do Brasil S.A. of \$1.0 million (2015: \$nil). The balances receivable consisted of the \$0.8 million consideration for the sale of the Group's 49% ownership interest in Deep Seas Insurance to Siem Industries Inc. with \$0.2 million relating to other services.

35. Share-based payments

The Group operates two equity-settled share-based payment schemes.

The following table summarises the compensation expense recognised in the Consolidated Income Statement during the year:

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Expense arising from equity-settled share-based payment transactions:		
2009 Long-term Incentive Plan	0.1	2.2
2013 Long-term Incentive Plan	6.5	4.6
Total	6.6	6.8

Equity-settled share-based payment schemes

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 had a five-year term but was replaced with the 2013 Long-term Incentive Plan during 2013. The 2009 LTIP provided conditional awards of shares subject to performance conditions over a performance period of at least three years.

Performance conditions are based on relative Total Shareholder Return (TSR) against a specified comparator group of companies and are determined over a three-year period. The Group will have to deliver TSR above the median for any awards to vest. At the median level 30% of the maximum award will vest. If the actual ranked TSR position of Subsea 7 during the three-year period, as converted to a percentage, is equal to, or greater than 50% and below 90%, the vesting of the share award between 30% and 100% is determined by linear interpolation. The maximum award would only vest if the Group achieved top decile TSR ranking.

Approximately 120 senior managers and key employees participated in the 2009 LTIP. Grants were determined by the Compensation Committee, which is responsible for operating and administering the 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. 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 that calendar year. Grants are determined by the Compensation Committee of the Subsea 7 S.A. Board of Directors, 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 Subsea 7's shareholders, and enables participants to share in the success of the Group. The 2013 LTIP provides for conditional awards of shares based upon performance conditions over a performance period of 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 2016, initial grants comprising 1,021,000 (2015: 1,273,000) conditional awards of shares were made under the terms of the 2013 LTIP: 663,650 (2015: 827,775) awards are subject to relative TSR performance measures and 357,350 (2015: 445,725) are subject to ROAIC performance measures.

On 1 October 2016, in accordance with the terms of the initial grants made on 1 October 2013 under the 2013 LTIP, the first tranche of shares totalling 190,255 (2015: nil) were unconditionally released to participants.

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 Subsea 7 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 Subsea 7 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.

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 2013 LTIP participants are not entitled to receive dividend equivalent payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

35. Share-based payments continued

Equity-settled share-based payment schemes continued

ROAIC based awards continued

Approximately 160 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 at the date of the 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.

The IFRS 2 'Share-based payments' fair value of each performance share granted under the 2013 LTIP is estimated as of the grant date using a Monte Carlo simulation model with weighted average assumptions as follows:

For the year ended	2016 31 Dec	2015 31 Dec
Weighted average share price at grant date (in \$)	10.57	7.66
TSR performance – Weighted average fair value at grant date (in \$)	5.85	4.22
ROAIC performance – Weighted average fair value at grant date (in \$)	10.20	7.66
Expected volatility	43%	35%
Risk free rate	0.79%	0.59%
Dividend yield	0.9%	–

The expected share price volatility over the performance period is estimated from the Company's historical volatility. The award fair values were adjusted to recognise that participants are not entitled to receive dividend equivalent payments.

The non-market ROAIC performance condition is not incorporated into the grant date fair value of the ROAIC based awards. The value of each award will be adjusted at every reporting date to reflect the Group's current expectation of the number of performance shares which will vest under the non-market ROAIC performance condition.

2003 Plan

The Group operated a share option plan which was approved in April 2003 (the 2003 Plan). This plan included an additional option plan for key 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 of Subsea 7 S.A. administers these plans. Options were awarded at the discretion of the Compensation Committee to Directors and key employees of Subsea 7 S.A. and its subsidiaries.

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 prior to 31 December 2016. 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, redundancy or retirement before his or her options are exercised. No further share options will be granted under the 2003 Plan or the French Plan.

Subsea 7 Inc. share option plans

As part of the Combination, the Group replaced the share options previously issued by Subsea 7 Inc. All such options have vested but some remain outstanding at 31 December 2016.

Share options

Option activity for the 2003 Plan and Subsea 7 Inc. share option plans was as follows:

	Number of options 2016	Weighted average exercise price in \$ 2016	Number of options 2015	Weighted average exercise price in \$ 2015
Outstanding at year beginning	947,067	16.16	1,149,929	13.42
Exercised	–	–	(91,317)	7.58
Forfeited	–	–	(16,324)	15.03
Expired	(419,760)	15.47	(95,221)	10.40
Outstanding at year end	527,307	16.80	947,067	16.16
Exercisable at the end of the year	527,307	16.80	947,067	16.16

There were no options exercised during the year ended 31 December 2016. The weighted average market price at exercise date of options exercised during the year ended 31 December 2015 was \$9.42.

The following table summarises information regarding share options outstanding as at 31 December 2016:

Common shares (range of exercise prices)	Options outstanding		
	Options outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price (in \$)
\$17.01 – \$26.16	195,548	1.18	22.22
\$10.01 – \$17.00	331,759	1.14	13.60
Total	527,307	1.16	16.80

36. Retirement benefit obligations

The Group operates both defined contribution and defined benefit pension plans.

The Group's contributions under the defined contribution pension plans are determined as a percentage of individual employee gross salaries. The expense relating to these plans for the year was \$38.3 million (2015: \$57.8 million).

Defined benefit plans

The Group operates both funded and unfunded defined benefit pension plans.

France

The defined benefit plan for France is called the *indemnités de fin de carrière* (retirement indemnity plan) and is pursuant to applicable French legislation and labour agreements in force in the industry. A lump-sum payment is made to employees upon retirement based on length of service, employment category and the employee's final salary. The obligation is unfunded and uninsured, as is standard practice in France. Since the retirement indemnity plan is based upon specific lengths of service, categories and values set by French legislation and collective agreements there is no specific trust or internal governance in place for this plan.

Norway

There are two Norwegian defined benefit pension plans which are known as the office (onshore) plan and the sailor plan.

The office (onshore) plan is a defined benefit scheme held with a life insurance company to provide pension benefits for the Group's employees. The scheme provides entitlement to benefits based on future service from the commencement date of the scheme. These benefits are principally dependent on an employee's pension qualifying period, salary at retirement age and the size of benefits from the National Insurance Scheme. The scheme also includes entitlement to disability, spouses and children's pensions. The retirement age under the scheme is 67 years. The office (onshore) plan is closed to new members.

The sailor plan is an established separate tariff rated pension scheme for offshore personnel. Pensions are paid upon retirement based on the employee's length of service and final salary. Under this scheme participants are entitled to receive a pension between 60-67 years of age. These are funded obligations.

Under the plans, pensions are paid upon retirement based on the employee's length of service and final salary. The plans have been established in accordance with Norwegian legislation and are separately administered funds. Due to Norwegian legislation the pension scheme must provide an annual guaranteed return on investment, and consequently, the plan assets have a bias toward bonds rather than equities. While the pension company is responsible for handling the plan according to Norwegian law, the Group is obligated to have a steering committee for the plan. The steering committee considers and makes recommendations to the Group on matters relating to the plan, including but not limited to: composition of the investment portfolio, amendments to the scheme, administration and enforcement of the scheme, transfer of funds to the Group, transfer of the scheme to another pension provider and termination of the scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36. Retirement benefit obligations continued

Defined benefit plans continued

Changes in the defined benefit obligation and fair value of plan assets

The following table provides a reconciliation of the changes in retirement benefit obligations and in the fair value of plan assets:

(in \$ millions)	Norway		United Kingdom		France		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Defined benefit obligation								
At year beginning	(19.0)	(23.5)	–	(35.8)	(10.4)	(16.2)	(29.4)	(75.5)
Pension costs charged to the Consolidated Income Statement:								
Service costs	(0.5)	(0.6)	–	–	(0.9)	(1.2)	(1.4)	(1.8)
Interest cost	(0.5)	(0.6)	–	(0.7)	(0.2)	(0.3)	(0.7)	(1.6)
Curtailment	–	–	–	–	2.9	5.0	2.9	5.0
Liabilities extinguished on settlements	–	–	–	34.9	–	–	–	34.9
Employee taxes	0.1	0.1	–	–	–	–	0.1	0.1
Sub-total	(0.9)	(1.1)	–	34.2	1.8	3.5	0.9	36.6
Remeasurement gains/(losses) recognised in other comprehensive income:								
Actuarial changes arising from changes in financial assumptions	(0.7)	0.4	–	–	0.4	–	(0.3)	0.4
Experience adjustments	1.8	0.9	–	–	0.3	(0.6)	2.1	0.3
Sub-total	1.1	1.3	–	–	0.7	(0.6)	1.8	0.7
Benefits paid	0.7	0.8	–	1.1	0.1	1.4	0.8	3.3
Exchange differences	(0.1)	3.5	–	0.5	0.3	1.5	0.2	5.5
At year end	(18.2)	(19.0)	–	–	(7.5)	(10.4)	(25.7)	(29.4)
Fair value of plan assets								
At year beginning	16.9	18.4	–	35.8	–	–	16.9	54.2
Amounts credited/(charged) to the Consolidated Income Statement:								
Interest income	0.4	0.5	–	0.8	–	–	0.4	1.3
Settlements	–	–	–	(34.9)	–	–	–	(34.9)
Sub-total	0.4	0.5	–	(34.1)	–	–	0.4	(33.6)
Remeasurement gains/(losses) recognised in other comprehensive income:								
Return on plan assets (excluding amounts in interest income)	(0.6)	0.7	–	–	–	–	(0.6)	0.7
Administrative expenses	(0.2)	(0.2)	–	–	–	–	(0.2)	(0.2)
Experience adjustments	–	–	–	–	–	–	–	–
Sub-total	(0.8)	0.5	–	–	–	–	(0.8)	0.5
Employer and participant contributions	0.3	1.1	–	0.1	–	–	0.3	1.2
Benefits paid	(0.7)	(0.8)	–	(1.1)	–	–	(0.7)	(1.9)
Exchange differences	–	(2.8)	–	(0.7)	–	–	–	(3.5)
At year end	16.1	16.9	–	–	–	–	16.1	16.9
Net defined benefit obligation	(2.1)	(2.1)	–	–	(7.5)	(10.4)	(9.6)	(12.5)
Presented as:								
Retirement benefit assets	0.3	0.8	–	–	–	–	0.3	0.8
Retirement benefit obligations	(2.4)	(2.9)	–	–	(7.5)	(10.4)	(9.9)	(13.3)
Total	(2.1)	(2.1)	–	–	(7.5)	(10.4)	(9.6)	(12.5)

Unfunded schemes

Included within the defined benefit obligation are amounts arising from unfunded French plans with a total obligation of \$7.4 million (2015: \$10.4 million).

The fair value of the Norwegian plan assets were as follows:

As at (in \$ millions)	2016 31 Dec	2015 31 Dec
Investments quoted in active markets		
Quoted equity investments	1.5	1.3
Unquoted investments		
Deposits	0.4	4.4
Bonds	10.7	8.9
Property	2.3	2.0
Other	1.3	0.3
Total	16.2	16.9

Future cash flows

The estimated contributions expected to be paid into the French and Norwegian plans during 2017 total \$1.0 million.

The average remaining service period for the Norwegian plans is eight years.

Significant actuarial assumptions

The principal assumptions used to determine the present value of the defined benefit obligation were as follows:

Year ended 31 December 2016

(in %)	Norway	France
Pension increase	0.0 – 2.3	–
Discount rate	2.1	1.5
Future salary increase	2.0	3.0

Year ended 31 December 2015

(in %)	Norway	France
Pension increase	0.0 – 2.3	–
Discount rate	2.5	2.0
Future salary increase	2.0	3.8

Assumptions regarding future mortality are set based on advice in accordance with published statistics and experience. The average life expectancy in years of a pensioner retiring at the plan retirement age for participants in the Norway office (onshore) plan is shown below. Life expectancy information for the sailor plan has not been provided as participants are only entitled to receive a pension between 60-67 years of age.

			As at balance sheet date	
Retirement benefit plan	Retirement age	Sex	2016 31 Dec	2015 31 Dec
Norway office (onshore) plan	67 years	Male	10.8	10.2
	67 years	Female	17.2	13.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36. Retirement benefit obligations continued

Defined benefit plans continued

Sensitivity analysis

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 is shown below. The sensitivity analysis has been determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Norway – sailor plan

(in \$ millions)

Sensitivity level	Pension increase		Discount rate		Future salary increase	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on the net defined benefit obligation	(0.2)	–	0.4	(0.5)	(0.6)	0.6

Norway – office plan

(in \$ millions)

Sensitivity level	Pension increase		Discount rate		Future salary increase	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on the net defined benefit obligation	(0.7)	0.7	0.7	(0.7)	–	–

France

(in \$ millions)

Sensitivity level	Discount rate	
	0.25% increase	0.25% decrease
Impact on the net defined benefit obligation	0.3	(0.3)

37. Deferred revenue

As at (in \$ millions)

	2016 31 Dec	2015 31 Dec
Advances received from clients	6.1	10.0

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 work commencing on construction contracts.

38. Cash flow from operating activities

For the year ended (in \$ millions)

	Notes	2016 31 Dec	2015 31 Dec
Cash flow from operating activities:			
Income before taxes		576.7	184.9
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	15	354.5	386.4
Impairment of property, plant and equipment	15	157.9	136.5
Impairment of intangible assets	14	0.6	–
Amortisation of intangible assets	14	7.3	7.2
Impairment of goodwill	13	90.4	520.9
Mobilisation costs	6	10.0	22.1
Adjustments for investing and financing items:			
Share of net income of associates and joint ventures	16	(46.4)	(63.4)
Finance income	8	(17.9)	(16.7)
Losses on disposal of property, plant and equipment	7	2.3	33.0
Insurance income	7	–	(30.6)
Net gain on repurchase of convertible bonds	7	(3.0)	(2.6)
Finance costs	8	7.1	8.2
Adjustments for equity items:			
Share-based payments	35	6.6	6.8
		1,146.1	1,192.7
Changes in operating assets and liabilities:			
Decrease in inventories		6.3	10.1
Decrease in operating receivables		126.3	303.1
Decrease in operating liabilities		(92.5)	(249.2)
		40.1	64.0
Income taxes paid		(140.6)	(208.1)
Net cash generated from operating activities		1,045.6	1,048.6

39. Post balance sheet events

Business combination

On 17 January 2017 an indirect subsidiary of Subsea 7 S.A. made an offer to acquire the 50% shareholding in Seaway Heavy Lifting Holding Limited currently owned by K&S Baltic Offshore (Cyprus) Limited. The offer includes an initial consideration of \$279.0 million on completion and deferred consideration of up to \$40.0 million to be paid by the end of the first quarter 2021 on condition that certain performance targets are met. The terms of the offer are binding on the Group until 1 July 2017. During this period the Works Council representing the employees of Seaway Heavy Lifting Holding Limited will be consulted in compliance with Dutch Law.

Senior secured facility

In January 2017 the Group drew down \$301.3 million of funds against its Export Credit Agency (ECA) senior secured facility. Amounts drawn are secured against the vessels, *Seven Arctic* and *Seven Kestrel*.

Dividend

Reflecting the Group's excellent operating performance and resulting strong financial and liquidity position, the Board of Directors will recommend to the shareholders at the Annual General Meeting on 12 April 2017 that a special dividend of NOK 5.00 per share be paid, equivalent to a total dividend of approximately \$200 million.

40. Wholly-owned subsidiaries

Subsea 7 S.A. had the following wholly-owned subsidiaries at 31 December 2016.

Name	Country of registration	Nature of business
Acergy (Gibraltar) Limited	Gibraltar	Corporate Service
Acergy B.V.	Netherlands	Holding
Acergy Concrete Products LLC	USA	General Trading
Acergy France SAS	France	General Trading
Acergy Holdings (Gibraltar) Limited ^(a)	Gibraltar	Holding
Acergy Services Limited	United Kingdom	General Trading
Acergy Shipping Inc.	Panama	Vessel Owning
Aquarius Solutions Inc.	Canada	General Trading
Class 3 (UK) Limited	United Kingdom	Vessel Owning
Engineering Subsea Solutions Limited	United Kingdom	General Trading
Globestar FZE (Snake Island)	Nigeria	General Trading
Pelagic Nigeria Limited	Nigeria	Holding
Pioneer Lining Technology Limited	United Kingdom	General Trading
PT. Subsea 7 Manufaktur Indonesia	Indonesia	General Trading
SCS Shipping Corporation	Liberia	Vessel owning
Seaway Offshore Participações S.A.	Brazil	Holding
Sevenseas Angola Limited	Cayman Islands	General Trading
Sevenseas Contractors S de RL de CV	Mexico	General Trading
SO France S.A.	France	Special Purpose
SO Marine Inc.	USA	General Trading
SO Services Inc.	USA	Special Purpose
Subsea 7 (Cyprus) Limited	Cyprus	Vessel Owning
Subsea 7 (Singapore) PTE Limited	Singapore	General Trading
Subsea 7 (UK Service Company) Limited	United Kingdom	Corporate Service
Subsea 7 (US) LLC	USA	General Trading
Subsea 7 (Vessel Company) B.V.	Netherlands	Vessel Owning
Subsea 7 (Vessel Company) Limited	United Kingdom	Vessel Owning
Subsea 7 Angola SAS	France	Special Purpose
Subsea 7 Asia Pacific Sdn Bhd	Malaysia	Special Purpose
Subsea 7 Australia Contracting Pty Ltd	Australia	General Trading
Subsea 7 B.V.	Netherlands	General Trading
Subsea 7 Canada Inc.	Canada	General Trading
Subsea 7 Chartering (UK) Limited	United Kingdom	General Trading
Subsea 7 Construction Limited	United Kingdom	General Trading
Subsea 7 Contracting (UK) Limited	United Kingdom	General Trading
Subsea 7 Crewing Limited	United Kingdom	Special Purpose
Subsea 7 Crewing Services Pte Limited	Singapore	Special Purpose
Subsea 7 Deep Sea Limited	United Kingdom	General Trading
Subsea 7 Do Brasil Serviços Ltda	Brazil	General Trading

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

40. Wholly-owned subsidiaries continued

Name	Country of registration	Nature of business
Subsea 7 Engineering Limited	United Kingdom	General Trading
Subsea 7 Finance (UK) PLC	United Kingdom	Special Purpose
Subsea 7 Ghana FZE Limited	Ghana	General Trading
Subsea 7 Holding Inc.	Cayman Islands	Holding
Subsea 7 Holding Norway AS	Norway	Holding
Subsea 7 Holdings (US) Inc.	USA	Holding
Subsea 7 Holdings B.V.	Netherlands	Holding
Subsea 7 Inc.	Cayman Islands	Holding
Subsea 7 Interim UK Holdings Limited	United Kingdom	Holding
Subsea 7 International Contracting Limited	United Kingdom	General Trading
Subsea 7 International Holdings (UK) Limited ^(a)	United Kingdom	Holding
Subsea 7 Investments (UK) Limited	United Kingdom	Special Purpose
Subsea 7 i-Tech AS	Norway	General Trading
Subsea 7 i-Tech Australia Pty Limited	Australia	General Trading
Subsea 7 i-Tech Limited	United Kingdom	General Trading
Subsea 7 i-Tech Mexico S de RL de CV	Mexico	General Trading
Subsea 7 i-Tech US Inc.	USA	General Trading
Subsea 7 Limited	United Kingdom	General Trading
Subsea 7 M.S. Limited	United Kingdom	Corporate Service
Subsea 7 Marine LLC	USA	General Trading
Subsea 7 Moçambique Lda	Mozambique	General Trading
Subsea 7 Navica AS	Norway	Vessel Owning
Subsea 7 Nigeria Limited	Nigeria	General Trading
Subsea 7 Nile Delta Limited	Egypt	General Trading
Subsea 7 Normand Oceanic Holding AS	Norway	Holding
Subsea 7 Norway AS	Norway	General Trading
Subsea 7 Offshore Resources (UK) Limited	United Kingdom	Vessel Owning
Subsea 7 Pipeline Production Limited	United Kingdom	General Trading
Subsea 7 Port Isabel LLC	USA	General Trading
Subsea 7 Portugal, Limitada	Portugal	General Trading
Subsea 7 Senior Holdings (UK) Limited	United Kingdom	Holding
Subsea 7 Shipping Limited	Isle of Man	Vessel Owning
Subsea 7 Singapore Contracting Pte Limited	Singapore	General Trading
Subsea 7 Treasury (UK) Limited	United Kingdom	Special Purpose
Subsea 7 Vessel Holding AS	Norway	Holding
Subsea 7 Vessel Owner AS	Norway	Vessel Owning
Subsea 7 Viking Holding AS	Norway	Holding
Subsea 7 West Africa Contracting Limited	United Kingdom	General Trading
Subsea 7 West Africa SAS	France	General Trading
Swagelining Limited	United Kingdom	General Trading
Tartaruga Insurance Limited	Isle of Man	Special Purpose
Thames International Enterprise Limited	United Kingdom	Special Purpose
ZNM Nigeria Limited	Nigeria	General Trading

(a) Wholly-owned subsidiaries directly owned by the parent company, Subsea 7 S.A.

For all entities, the principal place of business is consistent with the country of registration.

All subsidiary undertakings are included in the Consolidated Financial Statements of the Group. The proportion of the voting rights in the subsidiary undertakings held directly by the immediate parent company do not differ from the proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group.

Details of the addresses of the registered office of each of the wholly-owned subsidiaries are available on request from Subsea 7 S.A., registered office, 412F, route d'Esch, L-2086 Luxembourg.

ADDITIONAL INFORMATION

Adjusted EBITDA and Adjusted EBITDA margin

Adjusted earnings before interest, taxation, depreciation and amortisation ('Adjusted EBITDA') is a non-IFRS measure that represents net income before additional specific items that are considered to impact the comparison of the Group's performance either period-on-period or with other businesses. The Group defines Adjusted EBITDA as net income adjusted to exclude depreciation, amortisation and mobilisation costs, impairment charges or impairment reversals, finance income, other gains and losses (including gain on disposal of subsidiary and gain on distribution), finance costs and taxation. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue, expressed as a percentage.

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

Adjusted EBITDA and Adjusted EBITDA margin have not been prepared in accordance with IFRS as adopted by the EU. These measures exclude items that can have a significant effect on the Group's income or loss and therefore should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with IFRS) as a measure of the Group's operating results or cash flows from operations (as determined in accordance with IFRS) as a measure of the Group's liquidity.

Management believes that Adjusted EBITDA and Adjusted EBITDA margin are important indicators of the operational strength and the performance of the business. These non-IFRS measures provide management with a meaningful comparative for its Business Units, as they eliminate the effects of financing, depreciation, taxation and other one-off adjustments to the Consolidated Income Statement. Management believes that the presentation of Adjusted EBITDA is also useful as it is similar to measures used by companies within Subsea 7's peer group and therefore believes it to be a helpful calculation for those evaluating companies within Subsea 7's industry. Adjusted EBITDA margin may also be a useful ratio to compare performance to its competitors and is widely used by shareholders and analysts following the Group's performance. Notwithstanding the foregoing, Adjusted EBITDA and Adjusted EBITDA margin as presented by the Group may not be comparable to similarly titled measures reported by other companies.

Reconciliation of net operating income to Adjusted EBITDA and Adjusted EBITDA margin:

For the year ended (in \$ millions)	2016 31 Dec	2015 31 Dec
Net operating income	521.0	143.8
Depreciation, amortisation and mobilisation	371.8	415.7
Impairment of property, plant and equipment	157.9	136.5
Impairment of intangible assets	0.6	–
Impairment of goodwill	90.4	520.9
Adjusted EBITDA	1,141.7	1,216.9
Revenue	3,566.7	4,758.1
Adjusted EBITDA %	32.0%	25.6%

Reconciliation of net income/(loss) to Adjusted EBITDA and Adjusted EBITDA margin:

	2016 31 Dec	2015 31 Dec
Net income/(loss)	418.3	(37.0)
Depreciation, amortisation and mobilisation	371.8	415.7
Impairment of property, plant and equipment	157.9	136.5
Impairment of intangible assets	0.6	–
Impairment of goodwill	90.4	520.9
Finance income	(17.9)	(16.7)
Other gains and losses	(44.9)	(32.6)
Finance costs	7.1	8.2
Taxation	158.4	221.9
Adjusted EBITDA	1,141.7	1,216.9
Revenue	3,566.7	4,758.1
Adjusted EBITDA %	32.0%	25.6%

ADDITIONAL INFORMATION CONTINUED

Special note regarding forward-looking statements

Certain statements made in this Report may include 'forward-looking statements'. These statements relate to our expectations, beliefs, intentions or strategies regarding the future. These statements may be identified by the use of words such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'may', 'plan', 'project', 'should', 'will', 'seek', and similar expressions.

The forward-looking statements that we make reflect our current views and assumptions with respect to future events and are subject to risks and uncertainties. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, including those discussed in this Report under 'Risk Management', 'Financial Review' and the quantitative and qualitative information disclosures about Market Risk contained in Note 33 'Financial instruments' to the Consolidated Financial Statements. The following factors are among those that may cause actual and future results and trends to differ materially from our forward-looking statements: (i) our ability to deliver fixed price projects in accordance with client expectations and the parameters of our bids and avoid cost overruns; (ii) our ability to collect receivables, negotiate variation orders and collect the related revenue; (iii) our ability to recover costs on significant projects; (iv) capital expenditures by oil and gas companies; (v) the current global economic situation and level of oil and gas prices; (vi) delays or cancellation of projects included in our backlog; (vii) competition in the markets and businesses in which we operate; (viii) prevailing prices for our products and services; (ix) the loss of, or deterioration in our relationship with, any significant clients; (x) the outcome of legal proceedings or governmental inquiries; (xi) uncertainties inherent in operating internationally, including economic, political and social instability, boycotts or embargoes, labour unrest, changes in foreign governmental regulations, corruption and currency fluctuations; (xii) liability to third parties for the failure of our joint venture partners to fulfil their obligations; (xiii) changes in, or our failure to comply with, applicable laws and regulations; (xiv) cost and availability of supplies and raw materials; (xv) operating hazards, including spills, environmental damage, personal or property damage and business interruptions caused by adverse weather; (xvi) equipment or mechanical failures, which could increase costs, impair revenue and result in penalties for failure to meet project completion requirements; (xvii) the timely delivery of vessels on order and the timely completion of ship conversion programmes; (xviii) the impact of changes to estimated future costs and revenues used in project accounting on a 'percentage-of-completion' basis, which could reduce or eliminate reported profits; (xix) our ability to keep pace with technological changes; (xx) the effectiveness of our disclosure controls and procedures and internal control over financial reporting; and (xxi) actions by regulatory authorities or other third parties.

Many of these factors are beyond our ability to control or predict. Given these uncertainties, you should not place undue reliance on the forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Investor relations and press enquiries

Shareholders, securities analysts, portfolio managers, representatives of financial institutions and the press may contact:

Investor Relations Director

Isabel Green
Email: isabel.green@subsea7.com
Telephone: +44 (0) 20 8210 5568

Financial information

Copies of Stock Exchange announcements (including the Group's quarterly and semi-annual results announcements and the Group's Annual Report and Consolidated Financial Statements) are available on the Group's website www.subsea7.com.

Any shareholder requiring a printed copy of the Group's Annual Report and Consolidated Financial Statements or the Company's Financial Statements can request these via the website www.subsea7.com.

Stock listings

Common shares – Traded on Oslo Børs under the symbol SUBC – www.olsobors.no.

Registrar – Common Shares

Registrar for the shares of Subsea 7 S.A., recorded in the Norwegian Central Securities Depository (Verdipapirsentralen – the 'VPS').

DNB Bank ASA
Postboks 1600 Sentrum
NO-0021 Oslo
Norway
Telephone: +47 23 26 80 16
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Email: irene.johansen@dnb.no

Depository Bank – ADRs

Subsea 7 S.A. has a sponsored Level 1 ADR facility, for which Deutsche Bank Trust Company Americas acts as depository. Each ADR represents one common share of the Company. The ADRs are quoted over-the-counter ('OTC') in the US under the ticker symbol SUBCY.

For enquiries, beneficial ADR holders may contact the broker service of Deutsche Bank Trust Company Americas.

Deutsche Bank Trust Company Americas
27th Floor
60 Wall Street
New York, NY 10005
USA

Shareholder Service: +1 866 249 2593 (toll free for US 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 2017 on the following dates:

Q1 2017 Results	27 April 2017
Q2 & H1 2017 Results	26 July 2017
Q3 2017 Results	9 November 2017
Q4 & FY 2017 Results	1 March 2018

2017 Annual General Meeting

12 April 2017 at 15.00 CET
412F, route d'Esch
L-2086 Luxembourg

Registered office

412F, route d'Esch
L-2086 Luxembourg

Website

www.subsea7.com

GLOSSARY

Acergy S.A.	The former name of Subsea 7 S.A. prior to the Combination which completed following the close of business on the Oslo Børs on 7 January 2011.
Active Patent Family	Family of patent applications and patents of which at least one is still active or alive. A Patent Family groups the patent applications and patent that derive from the same initial invention and claim the same priority date.
Active Vessel Utilisation	Ratio of paid days to days available for utilisation (normally assumed to be 350 days per year) excluding days when vessels are stacked, expressed as a percentage. Vessels owned and operated by joint ventures are excluded from the utilisation calculations.
Adjusted EBITDA	Adjusted earnings before interest, taxation, depreciation and amortisation ('Adjusted EBITDA') is a non-IFRS measure that represents net income before additional specific items that are considered to impact the comparison of the Group's performance either period-on-period or with other businesses. The Group defines Adjusted EBITDA as net income adjusted to exclude depreciation, amortisation and mobilisation costs, impairment charges or impairment reversals, finance income, other gains and losses (including gain on disposal of subsidiary and gain on distribution), finance costs and taxation. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue, expressed as a percentage. The items excluded from Adjusted EBITDA represent items which are individually or collectively material but which are not considered representative of the performance of the business during the periods presented. Other gains and losses principally relate to disposals of investments, property, plant and equipment and net foreign exchange gains or losses. Impairments of assets represent the excess of the assets' carrying amount over the amount that is expected to be recovered from their use in the future or their sale.
Articles of Incorporation	The articles of incorporation of Subsea 7 S.A.
Backlog	Expected future revenue from in-hand projects only where an award has been formally signed. Backlog awarded to associates/joint ventures is excluded from backlog figures, unless otherwise stated.
Buoy-Supported Riser (BSR)	The BSR concept consists of a large sub-surface buoy which is anchored to the seabed by tethers. The buoy supports multiple Steel Catenary Risers which are connected to the floating production storage, and offloading unit (FPSO) by flexible jumpers.
Pipeline Bundle	A Pipeline Bundle incorporates all the structures, valve work, pipelines and control systems necessary to operate a field in one single pre-assembled product. The finished Pipeline Bundle is transported to its offshore location by a Controlled Depth Tow Method, delivering considerable value and cost savings.
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.
Business Management System (BMS)	Our integrated Business Management System integrates all of Subsea7's systems and processes in to one complete framework.
Cash-generating unit (CGU)	These are the separable business units on which impairment reviews are carried out.
Clean Operation	A Clean Operation is any measure beyond a normal operating practice that will save energy.
Combination	The repurchase and cancellation of all of the issued and outstanding ordinary shares in the capital of Subsea 7 Inc., the issue by Subsea 7 Inc. of new ordinary shares to Acergy S.A. (now Subsea 7 S.A.) and the issue of new common shares to the Subsea 7 Inc. shareholders, which took place on 7 January 2011. Under IFRS, the Combination is accounted for as an acquisition.
Company	Subsea 7 S.A.
Conventional	The projects relating to the fabrication and installation of fixed platforms and their umbilicals, flowlines and associated pipelines (surface/shallow water developments).
Day-rate contract	A contract in which the contractor is remunerated by the client 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.
Diving Support Vessel (DSV)	An offshore construction vessel that has dedicated saturation diving chamber(s) and dive bells for subsea construction activities in water depths of up to 300 metres.
DNB	Den Norske Bank.
Dry-dock	A facility for the construction, maintenance, and repair of vessels.

EBITDA	See Adjusted EBITDA.
Eidesvik Seven	Eidesvik Seven AS and Eidesvik Seven Chartering AS.
ENMAR	ENMAR S.A.
EPCIC	Engineering, Procurement, Construction, Installation and Commissioning. Also abbreviated to EPIC, EPC or EPCI.
EHTF	Electrically Heat Traced Flowline (EHTF) is Subsea 7's heated pipe-in-pipe technology solution to enhance flow assurance properties.
Executive Management Team	The Executive Management Team of Subsea 7 S.A. comprises: the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Executive Vice President Commercial, Executive Vice President Human Resources, and General Counsel.
Fabrication yard	Strategically positioned shore based facility to support delivery of offshore projects including fabrication of different types of steel structures e.g. jackets, modules, decks and platforms, spools, and jumpers.
FEED	Front-End Engineering Design, an early phase engineering design process.
Flex-lay	A pipelay method for installing flexible pipelines, risers and in-line structures by spooling them from a reel, carousel or basket, bending them over a chute and guiding them onto the seabed.
Flowline	A pipeline carrying oil, gas or water that connects the subsea wellhead to a manifold or to surface production facilities.
Global Projects	Part of a new Subsea 7 organisational structure which came into effect on 1 January 2015 and regroups the major project teams based in Paris and London which manage large, complex, technology-rich global projects.
Granherne	A wholly owned subsidiary of KBR, which is a leading front-end engineering consultancy for onshore, offshore and deepwater oil and gas developments.
Group	Subsea 7 S.A. and its subsidiaries.
Heavy lifting vessel	An offshore vessel or barge designed to lift objects greater than 1,000 tonnes for subsea construction and topside operations.
Hook-up	The process of making connections from a well to an oil and gas separator and from the separator to either the storage tanks or a flowline.
HSSEQ	Health, Safety, Security, Environment and Quality.
Integrity Management	A risk-based service supporting operators of subsea assets in the maintenance of their facilities.
IMR	Inspection, Maintenance and Repair of subsea infrastructure.
i-Tech Services	A Business Unit of Subsea 7 that includes activities associated with the provision of Inspection, Repair and Maintenance services, integrity management of subsea infrastructure and remote intervention support.
J-lay	A pipelay method consisting of welding single lengths of steel pipe on board a pipelay vessel (into double, quadruple or hex joints) and lowering the double/quad/hex length of pipeline vertically either through the vessel's moonpool or over the side of the vessel to the seabed, then repeating the process.
KBR	KBR is a global engineering, construction and services company supporting the energy, hydrocarbon, government services, minerals, civil infrastructure, power and industrial markets.
Life of Field	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).
Lost-time incident (LTI)	An incident which results in personnel being unable to work as the result of an injury.
Lost-time injury rate	The number of work related injuries or illnesses that result in the affected person being absent from work for at least one normal shift after the shift on which the injury occurred, because they are unfit to perform any duties, per 200,000 hours worked.
Lump-sum contract	A contract in which the contractor is remunerated by the client at a fixed 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 client in the contract, is for the contractor's account.
NigerStar7	NigerStar7 Limited and NigerStar7 Free Zone Enterprise.

GLOSSARY CONTINUED

Normand Oceanic	Normand Oceanic AS and Normand Oceanic Chartering AS.
OneSubsea ®	OneSubsea is a Schlumberger company which offers a step-change in reservoir recovery for the subsea oil and gas industry through integration and optimisation of the entire production system over the life of a field.
Operational support yard	Strategically positioned shore based facility to provide offshore operational support.
Performance share	Performance shares are awarded under the 2009 and 2013 Long-term Incentive Plans and cover approximately 150 senior employees. These shares vest after at least three years, subject to performance conditions.
Pipeline system	The pipeline and associated infrastructure for transporting oil and gas from the well head to the production facility.
PLSV	Pipelay Support Vessel.
Reel-lay	A pipelay method consisting of the onshore construction of a pipeline which is spooled onto a large vessel-mounted reel, transported to the field and unreeled down to the seabed.
Remote intervention	Provision of tooling, sampling, repair and containment solutions and services, including engineering, project management, autonomous intervention vehicles, ROVs and related tooling.
Renewables	Renewables or Offshore Renewables activity including the design and installation of offshore wind, tidal, wave and other related marine systems.
Riser/riser systems	A pipe through which liquid travels upward from the seabed to a surface production facility. Riser systems fall into two categories, those coupled directly to the host facility (SCRs), and un-coupled systems which in most cases are connected by flexible jumpers (HRTs/BSRs).
ROAIC	Return on Average Invested Capital. A key performance indicator for the Group which is used as a non-market performance measure in the 2013 Long-term Incentive Plan.
ROV(s)	Remotely Operated Vehicle(s).
SapuraAcergy	SapuraAcergy Assets Pte Limited and SapuraAcergy Sdn. Bhd.
Seaway Heavy Lifting	Seaway Heavy Lifting Holding Limited and its subsidiaries.
Setemares	Setemares Angola, Limitada.
SIMAR	SIMAR – Sociedade Angolana de Inspeção, Manutenção e Reparação Marítima, Lda.
S-lay	A pipelay method consisting of continuously welding single lengths of steel pipe on board a pipelay vessel and feeding them in a horizontal manner typically over the stern of the vessel on a ramp (stinger) from where the pipe, under its own weight, forms an 'S'-shaped catenary as it is lowered to the seabed.
Sonacergy	Sonacergy – Serviços e Construções Petrolíferas Lda (Zona Franca da Madeira).
Sonamet	Sonamet Industrial S.A.
Spoolbase	A shore-based facility used to facilitate continuous pipelaying for offshore oil and gas production. A spoolbase facility allows the welding of joints of pipe, predominantly steel pipe of 4" to 18" diameter, into predetermined lengths for spooling onto a reel-lay pipelay vessel.
Stacked	Term used to describe a vessel that is not operational and is unavailable for immediate deployment. Stacked vessels usually have a significantly reduced crew and an associated decrease in operating cost.
Subsea Integration Alliance	The alliance formed between Subsea 7 and OneSubsea (a Schlumberger company) to provide clients with integrated SPS and SURF solutions for offshore oil and gas developments.
Subsea Production System (SPS)	The equipment placed on the seabed that is connected to subsea pipeline networks and riser systems to produce the reservoir to a host facility.
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 Ugland House, South Church Street, George Town, Grand Cayman, KY1-1104, 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 du Commerce et des Sociétés in Luxembourg under number B 43 172 with a registered office at 412F, route d'Esch, L-2086, Luxembourg.
Subsea 7 Malaysia	Subsea 7 Malaysia Sdn. Bhd.
Subsea 7 Mexico	Subsea 7 Mexico S de RL de CV, Servicios Subsea 7 S de RL de CV and Naviera Subsea 7 S de RL de CV.
Subsea Field Development	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	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 Pipeline End Manifolds and Pipeline End Terminations.
Tie-back	A connection between a new oil and gas discovery and an existing production facility, improving the economics of marginal fields into profitable assets.
Tonnage tax	An optional tax regime for shipping companies offered by tax authorities including the UK and Norway.
Total recordable incident rate	The number of lost-time injuries, cases of substitute work and other injuries requiring treatment by a medical professional per 200,000 hours worked.
Total Vessel Utilisation	Ratio of paid days to days available (normally assumed to be 350 days per year) for utilisation of the total fleet of vessels expressed as a percentage. Vessels owned and operated by joint ventures are excluded from the utilisation calculations.
Umbilical	An assembly of hydraulic hoses, which can also include electrical cables or optic fibres, used to control subsea structures from an offshore platform or a floating vessel.
Values	Subsea 7 has five Values which are embedded at all levels in the organisation and which guide our behaviours: Safety, Integrity, Innovation, Performance, and Collaboration.
Variation Order	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.
VPS	Verdipapirsentralen, the Norwegian central securities depository.

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