

**Subsea 7 S.A.
Société Anonyme**

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

31 December 2014

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

Subsea 7 S.A.

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

Report of the Réviseur d'Entreprises Agréé

Report on the annual accounts

Following our appointment by the General Meeting of the Shareholders dated 27 June 2014, we have audited the accompanying annual accounts of Subsea 7 S.A., which comprise the balance sheet as at 31 December 2014 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

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

Responsibility of the réviseur d'entreprises agréé

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

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

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Subsea 7 S.A. as of 31 December 2014, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Report on other legal and regulatory requirements

The directors' report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the annual accounts and includes the information required by the law with respect to the corporate governance statement.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Thierry Bertrand

Luxembourg, 3 March 2015

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

Dear Shareholders,

We are pleased to submit for your approval the Balance Sheet as at 31 December 2014 and the Profit and Loss Account for the year then ended.

The net profit for the year ended 31 December 2014 was \$195.1 million (2013: net loss of \$33.2 million). The net profit of \$195.1 million in 2014 was mainly as a result of dividend income of \$231.3 million.

A special dividend of NOK 3.60 per common share that related to the year ended 31 December 2013 was approved by the shareholders at the Annual General Meeting on 27 June 2014. An amount of \$200.0 million was recognised in capital and reserves in June 2014 and the dividend was paid in July 2014 to shareholders of record as of 2 July 2014. In 2013, a dividend of \$199.3 million (\$0.60 per common share) was paid.

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

Board changes

On 30 June 2014 Mr. Allen Stevens and Mr. Robert Long resigned from the Board of Directors. Subsequently, following the Extraordinary General Meeting (EGM) that took place on 12 September 2014, Mr. Allen Stevens and Mr. Robert Long were co-opted onto the Board of Directors on 17 September 2014.

Equity transactions

Equity mandates

At the 2011 Annual General Meeting (AGM), and in accordance with the Articles of Incorporation, the Board of Directors was given authority under which it could approve the purchase of Company shares up to a limit of 10% of the common shares, net of the common shares previously repurchased and still held. This authority was subject to certain price conditions and was valid for five years. Such a mandate is allowed under Luxembourg law under which the Company is incorporated.

At the November 2014 EGM, in accordance with the Articles of Incorporation, the Board of Directors' authority to approve the purchase of Company shares, up to a limit of 10% of the issued common shares, net of the common shares (further to the cancellation of the common shares pursuant to the November 2014 EGM), previously repurchased and still held, was extended to 26 November 2019. This authority is subject to certain purchase price conditions. 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 and to record such reduction of share capital and the consequential amendment of the Articles of Incorporation in accordance with Luxembourg law. This is allowed under Luxembourg law under which Subsea 7 S.A. is incorporated.

The Board of Directors' right to acquire the Company's own shares is conditional on such purchases being made in open market transactions through the Oslo Bors, subject to certain limitations.

Share repurchase programmes

During 2014 the Group completed its \$200.0 million share repurchase programme, which was initiated in October 2013, pursuant to the standing authorisation granted to the Board of Directors at the 2011 AGM, described above, through the repurchase of 6,059,939 shares for a total consideration of \$107.6 million, each having a nominal value of \$2.00 (representing in aggregate 1.8% of the subscribed capital of the Company). Cumulatively 10,710,315 shares were repurchased under the October 2013 programme for a total consideration of \$198.8 million, each having a nominal value of \$2.00 (representing in aggregate 3.2% of the subscribed capital of the Company).

On 31 July 2014, the Group announced a further share repurchase programme of up to \$200.0 million. The programme was approved pursuant to the standing authorisation granted to the Board of Directors at the 2011 AGM, described above. During 2014, the Group repurchased 4,457,078 shares under the July 2014 share repurchase programme for a total consideration of \$49.5 million, each having a nominal value of \$2.00 (representing in the aggregate 1.3% of the subscribed capital of the Company).

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

Equity transactions (continued)

Share repurchase programme (continued)

All repurchases were 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. The repurchased shares were held as treasury shares until either cancelled or re-issued.

Purchase and subsequent cancellation of treasury shares

On 25 November 2014, 19,626,664 treasury shares were purchased from an indirect, wholly-owned subsidiary of the Company for a cost of \$231.3 million. Following the EGM of shareholders on 27 November 2014, the cancellation of shares was approved and accordingly 19,626,664 common shares were cancelled. As a result, the authorised capital of the Company was reduced by \$39.3 million and is now fixed at \$860.7 million, represented by 430,373,336 common shares, of which 332,167,067 are issued common shares and 98,206,269 are authorised but unissued common shares.

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

On 6 June 2014, holders of an aggregate \$0.1 million (par value) filed their conversion notice, for their 2014 Bonds to be converted into common shares of the Company and a total of 6,321 common shares were delivered to bondholders from existing shares held in treasury (by an indirect wholly-owned subsidiary of the Company).

On 25 September 2014 the Group repurchased \$79.1 million of the 2014 Bonds (par value) for \$79.0 million. In addition, on 29 September 2014, holders of an aggregate \$13.8 million (par value) filed their conversion notice for their 2014 Bonds to be converted into common shares of the Company. A total of 900,783 common shares were delivered to bondholders from existing shares held in treasury (by an indirect wholly-owned subsidiary of the Company) on 13 October 2014. On the same date the remaining \$182.0 million (par value) of 2014 Bonds were redeemed on maturity at their principal amount.

Legal and regulatory framework

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

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

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

Corporate Governance

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

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

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

Corporate Governance (continued)

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

Different classes of shares

The Company has one class of shares which are listed on the Oslo Børs. Each share carries equal rights including an equal voting right at annual or extraordinary general meetings of shareholders of the Company. No shares carry any special control rights. The Articles of Incorporation contain no restrictions on voting rights.

Share issues

Under the Articles of Incorporation, the Board of Directors is authorised to issue a number of shares corresponding to the difference between the authorised and issued share capital. The authorisation to increase the issued share capital and to suppress the pre-emptive rights of existing shareholders is valid for a period of five years from the date of the publication of the minutes of the Extraordinary General Meeting of shareholders of 9 November 2010 but may be renewed.

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

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 a waiver is noted in the Stock Exchange announcement relating to such a share issue.

Freely negotiable shares

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

Take-overs

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

Significant beneficial owners

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

	%(a)
Siem Industries Inc	21.0%
Folketrygdfondet	6.2%

a) Information is correct as at 31 December 2014.

Articles of Incorporation

The Company's Articles of Incorporation are available on Subsea 7's website: www.subsea7.com. Luxembourg law requires the convening of an EGM of shareholders to resolve upon any amendment to the Articles of Incorporation. An EGM of shareholders must have a quorum of at least 50% of the capital present or represented. If that quorum is not reached, the EGM of shareholders may be reconvened. At such reconvened meeting, no quorum will be required. Irrespective of whether the proposed matter will be subject to a vote at the first or at a subsequent EGM of shareholders, its approval will require at least two thirds of the votes cast in favour at such EGM of shareholders. Abstentions are not considered as votes.

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

Articles of Incorporation (continued)

The Articles of Incorporation were amended twice during 2014, firstly at an EGM that took place on 17 September 2014 and secondly at an EGM that took place on 27 November 2014. The amendments approved at the September 2014 EGM provide the Group with greater flexibility in relation to operations in United States waters. The amendments approved at the November 2014 EGM were necessary to reflect the shareholders' decision to cancel treasury shares and the related reduction in the issued share capital from \$703,587,462 represented by 351,793,731 common shares to \$664,334,134 represented by 332,167,067 common shares and the corresponding reduction in the level of the Company's authorised share capital from \$900,000,000 represented by 450,000,000 common shares to \$860,746,672 represented by 430,373,336 common shares.

Risks and uncertainties

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

The Group's working capital position will be affected by the timing of cash flows where the timing of receipts from clients (typically based on completion of contractual 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 Engineering, Procurement, Installation and Commissioning (EPIC) contracts. The availability of short- and long-term external financing is required to help meet the financial obligations as they fall due. In the event that such financing were to be unavailable or withdrawn, the Group's activities would be significantly constrained.

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

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

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

Future developments

The Group operates in seabed-to-surface engineering, construction and services. In 2014 large project awards were postponed as oil operators reassessed their capital spending plans and priorities in light of a significant reduction in the world price of oil. The Board of Directors remain confident, however, in their mid and long-term business prospects as deepwater and harsh environment projects are key for its clients as they face the challenge of declining reserves.

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

Subsequent events

Annual General Meeting

The Board of Directors has recommended that shareholders approve the Annual Accounts for the year ended 31 December 2014, with no payment of a special dividend, at the next Annual General Meeting on 17 April 2015.

Board of Directors

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

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

It is noted that, as described above Mr. Robert Long and Mr. Allen Stevens were co-opted onto the Board of Directors on 17 September 2014 and as such both Mr. Robert Long and Mr. Allen Stevens will be standing for re-election at the 2015 AGM in order to have their appointments confirmed. In addition, the mandate of Mr. Dod Fraser is due to expire at the 2015 AGM and Mr. Dod Fraser will therefore also be standing for re-election.

Directors' Responsibility Statement

We confirm that, to the best of our knowledge, the Annual Accounts for the year ended 31 December 2014 have been prepared in accordance with current applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company. We also confirm that, to the best of our knowledge, the 2014 Annual Accounts include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties facing the Company.

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

Kristian Siem
Chairman
3 March 2015

Jean Cahuzac
Director - CEO

Subsea 7 S.A.
Balance Sheet
As at 31 December 2014
(\$'000)

Assets	Notes	2014	2013	Liabilities	Notes	2014	2013
Fixed assets				Capital and reserves			
Financial fixed assets				Subscribed capital	5	664,334	703,587
Shares in affiliated undertakings	3	5,245,833	5,245,833	Share premium and similar premiums	5	2,643,524	3,035,595
Shares in undertakings with which the undertaking is linked by virtue of participating interests	3	18,823	18,823	Reserves			
				Legal reserve	5, 6	70,359	70,359
				Profit or (loss) brought forward	5	28,340	260,685
				Profit or (loss) for the financial year	5	195,061	(33,167)
				Interim dividends	5	-	(199,178)
						3,601,618	3,837,881
Current assets				Non subordinated debts			
Debtors				Debture loans			
Amounts owed by affiliated undertakings				Convertible loans			
Becoming due and payable within one year	4	-	286,812	Becoming due and payable within one year	14	-	275,000
Other receivables				Becoming due and payable after more than one year	14	700,000	700,000
Becoming due and payable within one year	4	73	-	Amounts owed to affiliated undertakings			
Cash at bank		453	356	Becoming due and payable within one year	10	569,094	536,286
				Becoming due and payable after more than one year	10	393,865	199,678
Prepayments		1,155	1,575	Other creditors			
				Becoming due and payable within one year	10	1,760	4,554
Total assets		5,266,337	5,553,399	Total liabilities		5,266,337	5,553,399

The accompanying notes on pages 10 to 20 form an integral part of these Annual Accounts.

Subsea 7 S.A.
Profit and Loss Account
For the year ended 31 December 2014
(\$'000)

Charges	Notes	2014	2013	Income	Notes	2014	2013
Other external charges	7	1,643	10,945	Other operating income		52,939	51,539
Other operating charges		52,939	51,539	Income from financial fixed assets			
Interest and other financial charges				derived from affiliated undertakings	5	231,300	-
concerning affiliated undertakings		35,674	10,004	Other interest and other financial income			
other interest and similar financial charges		12,082	25,118	derived from affiliated undertakings		7,289	12,878
				other interest and similar financial income	8	5,877	26
Income tax	13	6	4				
Profit for the financial year		195,061	-	Loss for the financial year		-	33,167
		<u>297,405</u>	<u>97,610</u>			<u>297,405</u>	<u>97,610</u>
Total charges				Total income			

The accompanying notes on pages 10 to 20 form an integral part of these Annual Accounts.

Subsea 7 S.A.

Notes to the Annual Accounts as at 31 December 2014

1. Organisation

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

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

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

Some reclassifications on the profit and loss account and changes on the balance sheet and profit and loss account were made compared to the 2013 annual accounts, in compliance with the requirements of the law of 19 December 2002 as amended by the law of 30 July 2013.

2. Significant accounting policies

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

2.1 Financial fixed assets

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

Subsea 7 S.A.

Notes to the Annual Accounts as at 31 December 2014

2. Significant accounting policies (continued)

2.2 Translation of foreign currencies

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

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

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

2.3 Share-based payments

Share-based payments for the Company are settled by its affiliates and therefore the Company does not account for these costs. Share-based payments are measured at fair value at the date on which they are granted. The fair value is determined using a Black-Scholes or Monte Carlo model. The cost of share-based payment transactions are recognised, by the Company's affiliates, over the period during which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

2.4 Convertible loans

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

2.5 Parent company guarantees

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

2.6 Interest payable and receivable

Amounts owed by and owed to affiliated undertakings bear interest at normal commercial rates.

Subsea 7 S.A.

Notes to the Annual Accounts as at 31 December 2014

2. Significant accounting policies (continued)

2.7 Debtors

Debtors are recognised initially at fair value. Provision for impairment is made when there is objective evidence that the Company may not be able to collect all of the amounts due. Bad debts are written off when identified.

2.8 Creditors

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

3. Financial fixed assets

(\$'000)	Affiliated undertakings	Participating interests	Total
Balance as at 31 December 2013 and 31 December 2014	5,245,833	18,823	5,264,656

The direct investments of the Company as at 31 December 2014 and 31 December 2013 were as follows:

Name of the company	Country	Percentage held		Cost (\$'000)	
		2014	2013	2014	2013
Acergy Holdings (Gibraltar) Limited	Gibraltar	100%	100%	3,855,887	3,855,887
Acergy (Gibraltar) Limited	Gibraltar	100%	100%	1,389,946	1,389,946
Subsea 7 Shipping Limited	Isle of Man	< 1%	< 1%	18,823	18,823
				5,264,656	5,264,656

Undertakings in which the Company holds at least 20% in their share capital;:

Undertaking name and registered office	Ownership %	Last balance sheet date	Net equity at the balance sheet date of the company concerned (unaudited) \$'000	Profit for the last financial year (unaudited) \$'000
Acergy Holdings (Gibraltar) Limited 57/63 Line Wall Road Gibraltar	100	31 December 2014	5,186,401	254,335
Acergy (Gibraltar) Limited 57/63 Line Wall Road Gibraltar	100	31 December 2014	1,431,031	80,411

The Board of Directors have determined that there is no permanent impairment of the above investments as at the year end.

Subsea 7 S.A.

Notes to the Annual Accounts as at 31 December 2014

4. Debtors

(\$'000)	2014	2013
Amounts owed by affiliated undertakings	-	286,812
Other receivables	73	-
	73	286,812
	73	286,812

5. Capital and reserves

(\$'000)	Subscribed capital	Share premium and similar premiums	Legal reserve	Treasury shares	Profit or (loss) brought forward	Profit or (loss) for the financial year	Interim dividends	Total
Balance as at 31 December 2013	703,587	3,035,595	70,359	-	260,685	(33,167)	(199,178)	3,837,881
- Profit or (loss) for the financial year	-	-	-	-	-	195,061	-	195,061
- Dividend payment	-	(200,024)	-	-	-	-	-	(200,024)
- Recognition of non-distributable reserve	-	(231,300)	-	231,300	-	-	-	-
- Cancellation of treasury shares	(39,253)	39,253	-	(231,300)	-	-	-	(231,300)
- Allocation of results 2013	-	-	-	-	(232,345)	33,167	199,178	-
Balance as at 31 December 2014	664,334	2,643,524	70,359	-	28,340	195,061	-	3,601,618
	664,334	2,643,524	70,359	-	28,340	195,061	-	3,601,618

As at 31 December 2014, the authorised share capital comprised 430,373,336 \$2.00 common shares (2013: 450,000,000 \$2.00 common shares). The subscribed capital comprised 332,167,067 \$2.00 common shares (2013: 351,793,731 \$2.00 common shares).

On 25 November 2014, 19,626,664 treasury shares were purchased from an indirect, wholly-owned subsidiary of the Company at a total cost of \$231.3 million which was settled through issuance of a loan note (the "Loan Note") to the subsidiary. Upon purchase, a non-distributable reserve was created out of the share premium account, equivalent to the purchase price. On 27 November 2014 an Extraordinary General Meeting of shareholders approved the cancellation of shares held in treasury. Accordingly 19,626,664 common shares were cancelled and the non-distributable reserve was released. As a result, the authorised capital of the Company has been reduced by \$39.3 million and is now fixed at \$860.7 million, represented by 430,373,336 common shares, of which 332,167,067 are issued common shares and 98,206,269 are authorised but unissued common shares. Immediately following the cancellation of the shares, a dividend was received from Acergy (Gibraltar) Limited, a subsidiary of the Company, which was settled by assignment of the Loan Note. The Loan Note was thereby extinguished.

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Notes to the Annual Accounts as at 31 December 2014

5. Capital and reserves (continued)

A special dividend of NOK 3.60 per common share that related to the year ended 31 December 2013 was approved by the shareholders at the Annual General Meeting on 27 June 2014. An amount of \$200.0 million was recognised in shareholders' equity in June 2014 and the dividend was paid in July 2014 to shareholders of record as of 2 July 2014.

6. Legal reserve

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

7. Other external charges

(\$'000)	2014	2013
Administrative expenses	1,610	10,910
Statutory audit fees	33	35
	<u>1,643</u>	<u>10,945</u>

8. Other interest and similar financial income

(\$'000)	2014	2013
Other interest and similar financial income	<u>5,877</u>	<u>26</u>

9. Share-based payments

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

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 LTIP during 2013.

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

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

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

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Notes to the Annual Accounts as at 31 December 2014

9. Share-based payments (continued)

2013 Long-term Incentive Plan

The 2013 Long-term Incentive Plan (2013 LTIP) was approved by the Company's shareholders at the Annual General Meeting on 28 June 2013. The 2013 LTIP has a five-year term with awards being made annually and replaces the 2009 LTIP. The aggregate number of shares which may be granted in any calendar year is limited to 0.5% of issued and outstanding share capital on 1 January of each such calendar year. Grants are determined by the Compensation Committee of the Company 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 the Company's shareholders, and enables participants to share in the success of the Group. The 2013 LTIP provides for share awards, which are earned after three years, based on certain performance conditions, and vest after at least three years.

Performance conditions are based on two measures: relative 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 2014, awards of 1,631,500 shares were made under the terms of the 2013 LTIP; 1,060,475 shares are subject to relative TSR performance measures and 571,025 are subject to ROAIC performance measures.

TSR based awards

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

ROAIC based awards

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

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

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

Subsea 7 Inc. restricted stock award plan

The Subsea 7 Inc. restricted stock award plan fully vested during 2014 and is closed to future award.

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Notes to the Annual Accounts as at 31 December 2014

9. Share-based payments (continued)

2003 Plan

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

Options under the 2003 Plan (and therefore also under the French Plan) are exercisable for periods of up to ten years, at an exercise price not less than the fair market value per share at the time the option is granted. All such options had vested prior to 31 December 2014. Share option exercises are satisfied by reissuing treasury shares. Furthermore, options are generally forfeited if the option holder leaves the Group under any circumstances other than due to the option holder's death, disability or retirement before his or her options are exercised.

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

Special Incentive Plan 2012

This cash-settled scheme is fully vested during 2014 and closed to new awards.

10. Amounts owed to affiliated undertakings and other creditors

(\$'000)	2014			2013		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Amounts owed to affiliated undertakings	569,094	393,865	962,959	536,286	199,678	735,964
Other creditors	1,760	-	1,760	4,554	-	4,554
	<u>570,854</u>	<u>393,865</u>	<u>964,719</u>	<u>540,840</u>	<u>199,678</u>	<u>740,518</u>

11. Commitments and guarantees

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

Facilities

The following facilities, entered into by affiliated undertakings, were guaranteed by the Company as at 31 December 2014:

The multi-currency revolving credit and guarantee facility

The Group entered into a new \$500 million multi-currency revolving credit and guarantee facility on 3 September 2014. This facility is syndicated 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 was unutilised at 31 December 2014 and matures on 3 September 2019. The facility is guaranteed by the Company and Subsea 7 Finance (UK) Limited.

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Notes to the Annual Accounts as at 31 December 2014

11. Commitments and guarantees (continued)

Facilities (continued)

Termination of previous facilities

During 2014, the Group cancelled its \$600 million multi-currency revolving credit and guarantee facility which was entered into on 10 August 2010 (the \$600 million facility). No cash drawdowns were made under this facility. The facility was available for the issuance of guarantees or a combination of guarantees and cash drawings, subject to a \$100 million sub-limit for cash drawings. Prior to the cancellation of the facility, existing guarantees were novated to uncommitted, unsecured bi-lateral guarantee facilities.

The Group also terminated the three \$100 million multi-currency revolving credit facilities (multi-currency revolving credit facilities), each with a separate bank, available for cash drawings only. No drawdowns were made on these facilities.

Utilisation of Facilities:

(\$'000)	2014			2013		
	Utilised	Unutilised	Total	Utilised	Unutilised	Total
Cash loans	-	500,000	500,000	-	400,000	400,000
Guarantee facilities	-	-	-	183,000	317,000	500,000
Total	-	500,000	500,000	183,000	717,000	900,000

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 2014 was \$619 million (2013: \$490 million).

Guarantee arrangements with joint ventures

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

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

At 31 December 2014, SASB had a \$157.0 million multi-currency facility for the financing of the Gumusut-Kakap project. Both the Company and SapuraKencana Petroleum Berhad have issued guarantees for 50% of the financing respectively. The facility consists of \$121.0 million available for the issuance of the principal performance bank guarantees and \$30.0 million available for letters of credit and one revolving credit facility totalling \$6.0 million. At 31 December 2014, the amount drawn under the principal bank guarantee was \$96.0 million (2013: \$50.0 million), \$0.1 million was drawn under the letter of credit facility (2013: \$0.4 million) and \$nil was drawn under the revolving credit facilities (2013: \$nil).

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Notes to the Annual Accounts as at 31 December 2014

12. Board of Directors' expenses

Fees paid to Directors for the year ended 31 December 2014 amounted to \$571,000 (2013: \$674,025).

13. Income tax

(\$'000)	2014	2013
Tax on profit for the financial year	6	4

Following the abolition of the 1929 Holding Company tax regime, the Company has become subject to the normal corporate income tax regime of Luxembourg. For the 12 month period ended 31 December 2014 the Company was fully taxable at an effective rate of 29.22% (2013: 29.22%). The profit or loss recorded in those years, for tax purposes, results in only the minimum corporate income tax liability being incurred.

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

At 1 January 2014 and 1 January 2013 the unitary value of the Company was negative so only the minimum Net Wealth tax of Euro 62.50 is payable in respect of each year.

14. Convertible loans

Becoming due and payable within one year

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

As part of the Combination, the Group acquired \$275.0 million in aggregate principal amount of 3.5% convertible bonds due 2014. The bondholders were granted an option which allowed them to convert the 2014 Bonds into common shares with a conversion price on Combination of \$16.88 per share equivalent to 16,291,469 common shares, or at the Combination date approximately 4.8% of the Group's issued share capital (excluding treasury shares held).

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

On 6 June 2014 holders of an aggregate \$0.1 million (par value) filed their conversion notice for their 2014 Bonds to be converted into common shares of the Company and a total of 6,321 common shares were delivered to bondholders from existing shares held in treasury (by an indirect wholly-owned subsidiary of the Company).

On 25 September 2014 the Group repurchased \$79.1 million of the 2014 Bonds (par value) for \$79.0 million. In addition, on 29 September 2014, holders of an aggregate \$13.8 million (par value) filed their conversion notice for their 2014 Bonds to be converted into common shares of the Company. A total of 900,783 common shares were delivered to bondholders from existing shares held in treasury (by an indirect wholly-owned subsidiary of the Company) on 13 October 2014. On the same date the remaining \$182.0 million (par value) of 2014 Bonds were redeemed on maturity at their principal amount.

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Notes to the Annual Accounts as at 31 December 2014

14. Convertible loans (continued)

Becoming due and payable after more than one year

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

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

The bondholders were granted an option which allows them to convert the convertible bonds into common shares with an initial conversion price of \$30.10 per share at the date of issue, equivalent to 23,255,814 common shares or approximately 7.0% of the Company's issued share capital (excluding treasury shares held). At 31 December 2014 the 2017 Bonds had a conversion price of \$28.39 (2013: \$29.31) per share following the payment of the dividends since issuance, equivalent to 24,656,569 (2013: 23,882,634) common shares, or approximately 7.6% (2013: 7.1%) of the Group's issued share capital (excluding treasury shares held) at that date.

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

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

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

- the 2017 Bonds are unsecured but contain a negative pledge provision which restricts encumbrances or security interests on current and future property or assets to ensure that the convertible bonds will rank equally with other 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.

15. Treasury shares

During 2014 the Group completed its \$200 million share repurchase programme, which was initiated in October 2013, through the repurchase of 6,059,939 shares for a total consideration of \$107.6 million, each having a nominal value of \$2.00 (representing in the aggregate 1.8% of the subscribed capital of the Company). Cumulatively 10,710,315 shares were repurchased under the October 2013 share repurchase programme for a total consideration of \$198.8 million, each having a nominal value of \$2.00 (representing in the aggregate 3.2% of the subscribed capital of the Company).

On 31 July 2014, the Group announced a further 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, which allows for the purchase of up to a maximum of 10% of the Group's issued share capital, net of purchases already made. During 2014, the Group repurchased 4,457,078 shares under the July 2014 share repurchase programme for a total consideration of \$49.5 million, each having a nominal value of \$2.00 (representing in the aggregate 1.3% of the subscribed capital of the Company).

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Notes to the Annual Accounts as at 31 December 2014

15. Treasury shares (continued)

All repurchases were 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. The repurchased shares were held as treasury shares until either cancelled or re-issued.

As at 31 December 2014, no common shares (2013: Nil) were held directly by the Company as treasury shares.

As at 31 December 2014, 4,019,378 (2013: 14,193,786) treasury shares were held by an indirect, wholly-owned subsidiary of the Company and 1,779,682 (2013: 2,210,297) were held by employee benefit trusts.

16. Related party transactions

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

The Company is an associate of Siem Industries Inc. and is equity accounted for within Siem Industries Inc.'s consolidated annual financial statements. Payments were made to Siem Industries Inc. in relation to the services provided by Mr Siem and other services totalling \$250,000 (2013: \$250,000).

17. Subsequent events

Annual General Meeting

The Board of Directors has recommended that shareholders approve the Annual Accounts for the year ended 31 December 2014, with no payment of a special dividend, at the next Annual General Meeting on 17 April 2015.