

**Subsea 7 S.A.  
Société Anonyme**

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

**31 December 2012**

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

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## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### Report on the annual accounts

Following our appointment by the General Meeting of the Shareholders dated 22 June 2012, we have audited the accompanying annual accounts of Subsea 7 S.A. (formerly Acergy S.A.), which comprise the balance sheet as of 31 December 2012 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### *Responsibility of the réviseur d'entreprises agréé*

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

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

opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

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

## *Opinion*

In our opinion, the annual accounts give a true and fair view of the financial position of Subsea 7 S.A. as of 31 December 2012, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

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

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

For Deloitte Audit, *Cabinet de révision agréé*



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

13 March 2013

**Report of the Board of Directors to the Annual General Meeting of  
Subsea 7 S.A. ('the Company')  
to be held at the registered office at 412F, route d'Esch, L-2086 Luxembourg.  
13 March 2013**

Dear Shareholders,

We are pleased to submit for your approval the Balance Sheet as of 31 December 2012 and the Profit and Loss Account for the year then ended.

The net profit for the year ended 31 December 2012 was \$197.9 million. During the year the Company received \$210.3 million of dividends from its subsidiaries (2011: \$Nil). Of these dividends \$80.3 million represented the transfer of Veripos Inc. from Acergy Holdings (Gibraltar) Limited as a dividend-in-kind. The Company paid \$279.7 million in dividends which included a \$80.3 million distribution as a dividend-in-kind of the shares of Veripos Inc. The remaining \$199.3 million represented dividends paid in July 2012 in respect of financial year 2011.

*Securities and Exchange Commission deregistration*

On 8 March 2012, the Company made the necessary filings with the Securities and Exchange Commission to voluntarily deregister and terminate its reporting obligations under the Securities Exchange Act of 1934. Deregistration was final and effective on 7 June 2012.

*Board changes*

On 5 March 2012 Mr. Mel Fitzgerald resigned from the Board of Directors. On 15 March 2012, Mr. Eystein Eriksrud was appointed as a Non-Executive Director to the Board of Directors.

*Share buyback*

On 15 March 2012 the Board recommended a share buyback programme of up to \$200 million which allowed for the purchase of up to a maximum of 10% of the Company's issued share capital, net of purchases already made.

The repurchases of shares were to be made through open market transactions on Oslo Børs, pursuant to certain conditions and provided such purchases were in conformity with Article 49-2 of the Luxembourg Company Law implementing the EU Commission Regulation 2273/2003 on exemptions for buyback programmes and stabilization of financial instruments. The repurchased shares will either be cancelled or held as treasury shares to meet obligations arising under notes convertible into shares of the Company or any employee share option schemes. During the year, 8,567,073 shares were repurchased through this programme by an indirect subsidiary of the Company for a total consideration of \$200 million.

*Veripos spin-off*

On 12 April 2012, the Company announced the spin-off and listing on Oslo Børs of Veripos. The distribution as a dividend-in-kind of the shares in Veripos Inc. was approved by the shareholders on 22 June 2012 and recognised in shareholders' equity in June 2012. This dividend-in-kind of the common shares of Veripos Inc. entitled shareholders with a holding of ten common shares in the Company to one share in Veripos Inc., with fractional entitlements being rounded downwards without compensation to the nearest full number of Veripos Inc. shares. This dividend was paid on 24 July 2012 at which point the assets and liabilities of Veripos Inc. were derecognised.

*\$700 million 1.00% convertible loan notes due 2017 ('2017 Notes')*

On 5 October 2012, the Company issued \$700 million in aggregate principal amount of 1.00% convertible loan notes due 2017. The issuance was completed on 5 October 2012 with the receipt of net proceeds after deduction of issuance related costs of \$697.9 million. The 2017 Notes have an annual interest rate of 1.00% payable semi-annually in arrears on 5 April and 5 October of each year up to and including 2017. They were issued at 100% of their principal amount and unless previously redeemed, converted or cancelled will mature on 5 October 2017 at 100% of their principal amount.

**Report of the Board of Directors to the Annual General Meeting of  
Subsea 7 S.A. ('the Company')  
to be held at the registered office at 412F, route d'Esch, L-2086 Luxembourg.  
13 March 2013**

**Corporate Governance**

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

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

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

**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 Oslo Børs and American Depositary Receipts traded over-the-counter in the United States, the Company is subject to Luxembourg laws and regulations with respect to corporate governance.

As a company listed on 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 [www.nues.no/en/](http://www.nues.no/en/).

**Subsequent events**

*Seven Havila loan*

In February 2013, the Group repaid and cancelled its external loan and guarantee facility and the export finance agreement described as the Seven Havila Loan as detailed in Note 11 'Commitments and guarantees'.

*Proposed dividend*

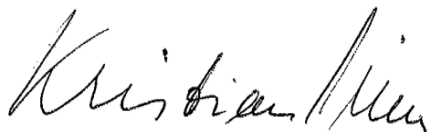
In the light of continued strong performance, the strength of the balance sheet and confidence in our business, the Board of Directors has decided to recommend shareholders to approve the payment of a special dividend of \$0.60 per share at the next AGM.

*Board of Directors*

Mr. Arild Schultz and Mr. Trond Westlie have communicated to the Board of Directors on 13 March their intention not to stand for re-election on expiry of their term as Directors of Subsea 7 S.A. at the next Annual General Meeting on 28 June 2013.

**Report of the Board of Directors to the Annual General Meeting of  
Subsea 7 S.A. (the 'Company')  
to be held at the registered office at 412F, route d'Esch, L-2086 Luxembourg.  
13 March 2013**

By special vote we ask you to discharge the Directors of the Company for the year ended 31 December 2012.



Kristian Siem  
Chairman

13 March 2013



Jean Cahuzac  
Director - CEO

13 March 2013

**Subsea 7 S.A.**

**Balance Sheet  
As at 31 December 2012**

**(\$'000)**

<b>Assets</b>	<b>Notes</b>	<b>2012</b>	<b>2011</b>	<b>Liabilities</b>	<b>Notes</b>	<b>2012</b>	<b>2011</b>
Financial assets				Capital and reserves			
Shares in affiliated undertakings	3	4,586,837	4,586,837	Subscribed capital	5	703,587	703,587
Participating interests	3	18,823	18,823	Share premium account	5	3,035,595	3,315,248
				Reserves			
				Legal reserve	5, 6	70,359	70,359
				Profit brought forward	5	62,770	75,542
Current assets				Profit/(loss) for the financial year/period	5	197,915	(12,772)
Debtors	4	942,644	348,854	Shareholders' equity	5	4,070,226	4,151,964
Cash at bank		342	661				
				Creditors	10	6,547	30,658
Prepayments and accrued income		3,127	2,447	Convertible loan notes			
				Due and payable within one year	14	500,000	-
				Due and payable after more than one year	14	975,000	775,000
<b>Total assets</b>		<b>5,551,773</b>	<b>4,957,622</b>	<b>Total liabilities</b>		<b>5,551,773</b>	<b>4,957,622</b>

The accompanying notes form an integral part of these annual accounts.



**Subsea 7 S.A.**

**Profit and loss account  
For the year ended 31 December 2012  
and the 13 months ended 31 December 2011**

(\$'000)

<b>Charges</b>	<b>Notes</b>	<b>2012</b>	<b>2011</b>	<b>Income</b>	<b>Notes</b>	<b>2012</b>	<b>2011</b>
Parent company guarantees - charges		24,907	20,610	Parent company guarantees - income		24,907	20,610
Interest payable and similar charges				Income from participating interests			
Other interest and similar charges		24,050	23,156	Dividend income in respect of affiliated undertakings		210,331	-
				Other interest receivable and similar income			
				In respect of affiliated undertakings		14,173	9,766
				Other interest income		-	20
Other charges	7, 12	3,460	3,207	Other income	8	925	3,787
Tax on profit or loss	13	4	-	Tax on profit or loss	13	-	18
Profit for the financial year		197,915	-	Loss for the financial period		-	12,772
<b>Total charges</b>		<b>250,336</b>	<b>46,973</b>	<b>Total income</b>		<b>250,336</b>	<b>46,973</b>

The accompanying notes form an integral part of these annual accounts.

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

### **Notes to the annual accounts as at 31 December 2012**

#### **1. Organisation**

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.

Up to 31 December 2010 (inclusive) the Company was entitled to the special tax status granted to billionaire holding companies under the law of 31 July 1929 and the Grand-Ducal Decree of 17 December 1938. 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 whilst nevertheless remaining within the limits set out by the law on holding companies of 31 July 1929. The references to the limitation under the law of 31 July 1929 automatically ceased to apply at midnight on 31 December 2010 and the object clause of the Company was amended effective 7 January 2011 to reflect its changed tax status.

On 7 January 2011, the Company completed its Combination with Subsea 7 Inc. after closing of Oslo Børs. This involved 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 the Company and the issue of new Subsea 7 S.A. shares to the Subsea 7 Inc. shareholders.

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

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

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

The Company maintains its books and records in US Dollars, and presents its annual accounts in accordance with generally accepted accounting principles in Luxembourg, applicable at the financial year end, which include the following significant accounting policies:

##### **2.1 Format of financial statements**

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

##### **2.2 Investments**

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

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

### **Notes to the annual accounts as at 31 December 2012**

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

##### **2.3 Translation of foreign currencies**

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

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

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

##### **2.4 Share-based payments**

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

##### **2.5 Convertible loan notes**

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

##### **2.6 Parent company guarantees**

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

## Subsea 7 S.A.

### Notes to the annual accounts as at 31 December 2012

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

(\$'000)	Shares in affiliated undertakings	Participating interests	Total
Balance as at 1 January 2012 and 31 December 2012	4,586,837	18,823	4,605,660

The direct subsidiaries of the Company as at 31 December 2012 and 31 December 2011 were as follows:

Name of the company	Country	Percentage held		Cost (\$'000)	
		2012	2011	2012	2011
Acergy Holdings (Gibraltar) Limited	Gibraltar	100%	100%	3,855,887	3,855,887
Acergy (Gibraltar) Limited	Gibraltar	100%	100%	730,950	730,950
Subsea 7 Shipping Limited (formerly Acergy Shipping Limited)	Isle of Man	< 1%	< 1%	18,823	18,823
				4,605,660	4,605,660

In July 2012 the Company received from its subsidiary, Acergy Holdings (Gibraltar) Limited, its entire shareholding of Veripos Inc., as a dividend-in-kind. The dividend income and the investment in Veripos Inc. was recognised at the estimated fair value of the assets distributed (\$80.3 million). Subsequently, the Company distributed the shares in Veripos Inc. as a dividend-in-kind to its shareholders.

#### 4. Debtors

(\$'000)	2012	2011
Amounts due from affiliated undertakings	942,644	348,854
	942,644	348,854

#### 5. Shareholders' equity

(\$'000)	Subscribed capital	Share premium account	Legal reserve	Retained earnings	Total
Balance as at 31 December 2011	703,587	3,315,248	70,359	62,770	4,151,964
- Result for the year	-	-	-	197,915	197,915
- Dividends paid	-	(279,653)	-	-	(279,653)
Balance as at 31 December 2012	703,587	3,035,595	70,359	260,685	4,070,226

As at 31 December 2012, the authorised share capital comprised 450 million \$2.00 common shares (2011: 450 million \$2.00 common shares). The subscribed capital comprised 351,793,731 \$2.00 common shares (2011: 351,793,731 \$2.00 common shares).

## Subsea 7 S.A.

### Notes to the annual accounts as at 31 December 2012

#### 5. Shareholders' equity (continued)

Dividends paid during the year represented \$199,321,505 paid in respect of the financial period 2011 and a dividend-in-kind of \$80,331,326 being the Company's shares in Veripos Inc. The Company's shares in Veripos Inc. were distributed at fair value to shareholders as part of the listing of Veripos Inc. on Oslo Børs.

#### 6. Legal reserve

Luxembourg law requires that 5% of the Company's net income each year is allocated to a legal reserve before the declaration of dividends. This requirement continues until the reserve is 10% of its stated capital, as represented by common shares 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 share premium. The legal reserve is not distributable. The legal reserve for all outstanding common shares has been satisfied and appropriate allocations are made to the legal reserve account at the time of each issuance of new shares.

#### 7. Other charges

(\$'000)	2012	2011
Administrative expenses	3,423	3,170
Statutory audit fees	37	37
	<u>3,460</u>	<u>3,207</u>

#### 8. Other income

(\$'000)	2012	2011
Net foreign currency exchange gains	925	3,787
	<u>925</u>	<u>3,787</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:

##### 2003 Plan

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

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

### **Notes to the annual accounts as at 31 December 2012**

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

##### **2003 Plan (continued)**

Under the 2003 Plan options up to but not exceeding 6.3 million common shares can be granted. Following shareholder approval at the Extraordinary General Meeting held on 18 December 2008, the 2003 Plan was expanded to cover up to 8.7 million shares. Any options granted under the French Plan are included as part of this limit. Other than options granted under the SMIP, options under the 2003 Plan (and therefore also under the French Plan) may be granted, exercisable for periods of up to ten years, at an exercise price not less than the fair market value per share at the time the option is granted. 25% of such options vest on the first anniversary of the grant date, with an additional 25% vesting on each subsequent anniversary. The cost of these non-performance share options is therefore recognised using the graded vesting attribution method. Share option exercises are satisfied by reissuing treasury shares. Furthermore, options are generally forfeited if the option holder leaves the Group under any circumstances other than due to the option holder's death, disability or retirement before his or her options are exercised.

In the year no common share options were granted (2011: no common share options granted), and no options were granted under the French Plan (2011: no common share options granted).

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

The 2009 Long-Term Incentive Plan ('2009 LTIP') was approved by the Company's shareholders at the Extraordinary General Meeting on 17 December 2009. The 2009 LTIP has a five-year term with awards being made annually. The aggregate number of shares subject to all awards which may be granted in any calendar year is limited to 0.5% of issued and outstanding share capital on 1 January of each such calendar year.

The 2009 LTIP is an essential component of the Company's reward strategy, and was designed to place the Company on a par with competitors in terms of recruitment and retention abilities. The 2009 LTIP provides for share awards, which are earned after three years, based on 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 Company 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 Company 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 Company achieved top decile TSR ranking. In addition, individual award caps are in place. No senior executive or other employee may be granted shares under the 2009 LTIP in a single calendar year that have an aggregate fair market value in excess of 150%, in the case of senior executives, or 100%, in the case of other employees, of his or her annual base salary as of the first day of the year of award. Additionally, a holding requirement for senior executives will continue to apply. 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, which must be maintained throughout their tenure.

During 2012, awards of 1,279,500 shares were made under the terms of the 2009 LTIP. In conjunction with this award 834,500 shares were transferred to an Employee Benefit Trust at the closing share price on Oslo Børs on 10 September 2012. Approximately 120 senior managers and key employees participate in the 2009 LTIP. Grants are determined by the Compensation Committee, which is responsible for operating and administering the plan.

## Subsea 7 S.A.

### Notes to the annual accounts as at 31 December 2012

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

##### Special Incentive Plan 2009

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

##### Special Incentive Plan 2012

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

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

Certain employees of the Group were awarded, prior to the Combination in 2011, a total of 1.7 million shares. On Combination, these awards were replaced by the Company with 1.8 million restricted stock awards, at the exchange ratio 1.065 replacement restricted share for each previously awarded restricted share. The shares had a fair value of \$25.19 (NOK 151.3) per share equivalent to the market price on the Combination date.

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

Awards will not attract any dividends or dividend equivalents prior to the delivery of shares. Participants will not have any voting rights in respect of the vested number of shares awarded prior to the delivery of the shares. All shares allotted under the share plan carry the same rights as any other issued common shares in the Company. US participants who receive awards in the form of restricted stock are required to waive voting and dividend rights during the restricted period as a term of the award.

At 31 December 2012, 1,217,683 restricted shares had vested (2011: 264,726).

#### 10. Creditors

(\$'000)	2012			2011		
	Less than one year	One to five years	Total	Less than one year	One to five years	Total
Amounts owed to affiliated undertakings	-	-	-	56	24,809	24,865
Other creditors	6,547	-	6,547	5,793	-	5,793
	<u>6,547</u>	<u>-</u>	<u>6,547</u>	<u>5,849</u>	<u>24,809</u>	<u>30,658</u>

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

### **Notes to the annual accounts as at 31 December 2012**

#### **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 2012:

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

Up to 26 October 2012, the Group had a \$1 billion facility which was agreed with a number of banks and was available for the issuance of guarantees, or a combination of guarantees and cash drawings subject to a \$500 million sub-limit for cash drawings.

On 26 October 2012, the Company cancelled \$400 million of the outstanding \$500 million sub-limit available for cash drawings. The facility is guaranteed by the Company, Class 3 Shipping Limited, Subsea 7 Shipping Limited, Subsea 7 Treasury (UK) Limited, Subsea 7 Limited and Offshore Resources Limited. Final maturity is 10 August 2015. However, in accordance with the terms of the agreement, performance guarantees can be issued with up to 78 months duration up to one month prior to the final maturity date of the facility, subject to the Group providing cash cover for any guarantees outstanding following the final maturity date.

Interest on the facility is payable at LIBOR plus a margin which is linked to the Group's leverage, measured as the ratio of net debt to adjusted EBITDA, and which may range from 1.75% to 2.75% per year. The fee applicable for guarantees is linked to the same ratio of net debt to adjusted EBITDA and may range from 1.75% to 2.75% per year in respect of financial guarantees and 0.88% to 1.38% in respect of performance guarantees. The margin and guarantee fee are reset quarterly in line with changes in the Group's leverage.

##### **Seven Havila Loan**

In October 2008, Acergy Havila Limited entered into a loan facility of NOK 920 million with Eksportfinans. This loan facility was supported by a guarantee and additional facility provided by DNB ('DNB facility') capped at NOK 978 million. The amount of the guarantee available under this agreement reduces in line with the repayment of the Eksportfinans loan. As this loan reduces, an additional loan totalling NOK 109 million is available at defined future dates within the facility. The final termination date of the DNB facility is no later than 28 February 2021.

A first priority mortgage on the vessel has been provided as security on the loan and DNB facility. A charter guarantee has been provided by the Company. Interest on the drawn loan facility is at a fixed rate of 4.65% per year until 2016. Thereafter the rate will be set by reference to commercial interest rates. In addition a facility is available at NIBOR plus 2.2% with guarantee commission payable at 1.65% per year.

On 14 December 2012, Acergy Havila Limited became a wholly-owned subsidiary of Acergy (Gibraltar) Limited (a wholly-owned subsidiary of the Company). Prior to this Acergy Havila Limited was a joint venture between Acergy (Gibraltar) Limited and Havila Shipping Pte Limited.



## Subsea 7 S.A.

### Notes to the annual accounts as at 31 December 2012

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

Utilisation of the Facility and the Seven Havila Loan:

(\$'000)	2012			2011		
	Utilised	Unutilised	Total	Utilised	Unutilised	Total
Cash loans	157,000	116,500	273,500	158,900	517,400	676,300
Guarantee facilities	249,000	251,000	500,000	293,000	207,000	500,000
Total	406,000	367,500	773,500	451,900	724,400	1,176,300

#### Guarantee arrangements with joint ventures

SapuraAcergy 7 Assets Pte Limited ('SAPL') is a joint venture between Nautical Essence Sdn. Bhd. (wholly-owned by SapuraCrest Petroleum Berhad) and Acergy (Gibraltar) Limited (wholly-owned by the Company).

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

SapuraAcergy Sdn. Bhd. is a joint venture between Nautical Essence Sdn. Bhd. (wholly-owned by SapuraCrest Petroleum Berhad) and Acergy (Gibraltar) Limited (wholly-owned by the Company). At 31 December 2012, SASB had a \$111.3 million multi-currency facility for the financing of the Gumusut-Kakap Project. Both the Company and SapuraCrest Petroleum Berhad had issued several guarantees for 50% of the financing respectively. The facility consists of \$51 million available for the issuance of bank guarantees, \$30 million available for letters of credit, and two revolving credit facilities totalling \$30 million.

At 31 December 2012, the amount drawn under bank guarantees was \$1 million, \$0.3 million was drawn under the letter of credit facility and \$10 million was drawn under the \$30 million revolving credit facilities.

#### 12. Board of Directors' expenses

Fees paid to Directors for the year ended 31 December 2012 amounted to \$758,557 (2011: \$745,372). In addition, payments totalling \$200,000 (2011: \$129,315) were made to Siem Industries Inc. in relation to the provision of services by the Chairman of the Company.

#### 13. Taxes

(\$'000)	2012	2011
Tax on the profit of the current year	2	-
Adjustment in respect of prior periods	2	(18)
Current tax charge/(credit)	4	(18)

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

### **Notes to the annual accounts as at 31 December 2012**

#### **13. Taxes (continued)**

Following the abolition of the 1929 Holding Company tax regime, the Company became subject to the normal corporate income tax regime of Luxembourg. For the year ended 31 December 2012, the company was fully taxable at an effective rate of 28.8%. (12 months ended 31 December 2011 - 28.8%). The loss incurred in the year, for tax purposes, results in only the minimum corporate income tax liability being incurred. The adjustment in respect of prior periods represents the provision for the 2011 minimum corporate income tax liability. No deferred tax asset has been recognised in respect of tax losses incurred in either year.

The Company is now subject to Luxembourg net wealth tax amounting to 0.5% of the net asset value of the company as at 1 January each year, net of the value of the exempt participations. At the commencement of the year ended 31 December 2012, the unitary value of the company, assessed in accordance with its balance sheet for tax purposes was zero, as it was in the preceding accounting period, accordingly only the minimum net wealth tax is payable in respect of the period ended 31 December 2011 and the year ended 31 December 2012.

#### **14. Convertible loan notes**

##### **Due and payable within one year**

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

On 11 October 2006, the Company issued \$500 million in aggregate principal amount of 2.25% convertible loan notes due 2013. The issuance was completed on 11 October 2006 with the receipt of net proceeds after deduction of issuance related costs of \$490.8 million.

The 2013 Notes have an annual interest rate of 2.25% payable semi-annually in arrears on 11 April and 11 October of each year up to and including 2013. They were issued at 100% of their principal amount and unless previously redeemed, converted or cancelled will mature on 11 October 2013 at 100% of their principal amount. The 2013 Notes are admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

The noteholders were granted an option which allows them to convert the convertible loan notes into common shares with an initial conversion price of \$24.05 per share equivalent to 20,790,021 common shares, or at the date of issue approximately 10.7% of the Company's issued share capital (excluding treasury shares held) as at 11 October 2006. All \$500 million of the 2013 Notes remained outstanding as at 31 December 2012 with a conversion price at that date of \$21.54 (2011: \$22.37) per share following the payment of the dividends since issuance, equivalent to 23,212,628 (2011: 22,351,363) common shares, or approximately 7.0% (2011: 6.6%) of the Company's issued share capital (excluding treasury shares held) as at 31 December 2012. The conversion price will continue to be adjusted in line with the 2013 Notes' terms and conditions including payment of dividends.

There is also an option for the Company to call the 2013 Notes after 25 October 2010, if the price of the common shares exceeds 130% of the conversion price for a specified period.

The following is a summary of certain other terms and conditions that apply to the 2013 Notes:

- the 2013 Notes are unsecured but contain a negative pledge provision which restricts encumbrances or security interests on current and future property or assets to ensure that the convertible notes will rank equally with other debt issuance;
- a cross default provision subject to a minimum threshold of \$10 million and other events of default in connection with non-payment of the 2013 Notes;
- various undertakings in connection with the term of any further issuance of common shares, continuance of the listing of the shares and the 2013 Notes on recognised stock exchanges; and
- provisions for the adjustment of the conversion price in certain circumstances.

There were no conversions of the 2013 Notes as of 31 December 2012 (2011: Nil).

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

### **Notes to the annual accounts as at 31 December 2012**

#### **14. Convertible loan notes (continued)**

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

##### **\$700 million 1.00% convertible loan notes due 2017 ('2017 Notes')**

On 5 October 2012, the Company issued \$700 million in aggregate principal amount of 1.00% convertible loan notes due 2017. The issuance was completed on 5 October 2012 with the receipt of net proceeds after deduction of issuance related costs of \$697.9 million.

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

The noteholders were granted an option which allows them to convert the convertible loan notes into common shares with an initial conversion price of \$30.10 per share equivalent to 23,255,814 common shares, or at the date of issue approximately 7.0% of the Company's issued share capital (excluding treasury shares held) as at 5 October 2012. All \$700 million of the 2017 Notes remained outstanding as at 31 December 2012 with a conversion price at that date of \$30.10 per share. The conversion price will continue to be adjusted in line with the 2017 Notes' terms and conditions including payment of dividends.

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

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

- the 2017 Notes are unsecured but contain a negative pledge provision which restricts encumbrances or security interests on current and future property or assets to ensure that the convertible notes will rank equally with other debt issuance;
- a cross default provision subject to a minimum threshold of \$25 million and other events of default in connection with non-payment of the 2017 Notes;
- various undertakings in connection with the term of any further issuance of common shares and continuance of the listing of the shares; and
- provisions for the adjustment of the conversion price in certain circumstances.

There were no conversions of the 2017 Notes as at 31 December 2012.

##### **\$275 million 3.5% convertible loan notes due 2014 ('2014 Notes')**

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

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

The noteholders were granted an option which allows them to convert the 2014 Notes into common shares with a conversion price on Combination of \$16.88 per share equivalent to 16,291,469 common shares, or at the Combination date approximately 4.8% of the Company's issued share capital (excluding treasury shares held).

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

### **Notes to the annual accounts as at 31 December 2012**

#### **14. Convertible loan notes (continued)**

##### **Due and payable after more than one year (continued)**

##### **\$275 million 3.5% convertible loan notes due 2014 ('2014 Notes')**

All \$275 million of the 2014 Notes remained outstanding as at 31 December 2012 with a conversion price at that date of \$16.25 (2011: \$16.88) per share following the payment of the dividends since issuance, equivalent to 16,923,077 (2011: 16,291,469) common shares, or approximately 5.1% (2011: 4.8%) of the Company's issued share capital (excluding treasury shares held) as at 31 December 2012. The 2014 Notes can be converted at the option of the noteholder up to the close of business 10 banking days prior to the final maturity date. The conversion price will be adjusted in line with the 2014 Notes' terms and conditions.

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

- the 2014 Notes are unsecured but contain a negative pledge provision which restricts encumbrances or security interests on current and future property or assets to ensure that the convertible notes will rank equally with other debt issuance;
- a cross default provision subject to a minimum threshold of \$10 million and other events or default in connection with non-payment of the 2014 Notes;
- various undertakings in connection with the term of any further issuance of common shares continuance of the listing of the shares and the 2014 Notes on recognised stock exchanges; and
- provisions for the adjustment of the conversion price in certain circumstances.

There were no conversions of the 2014 Notes as of 31 December 2012 (2011: Nil).

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

On 16 March 2012 the Board announced a share buyback programme of up to \$200 million. The programme was approved pursuant to the standing authorisation granted to the Board at the Annual General Meeting held on 27 May 2011, which allows for the purchase of up to a maximum of 10% of the Company's issued share capital, net of purchases already made.

Any such repurchases of own shares were to be made through open market repurchases on Oslo Børs, pursuant to certain conditions and provided such purchases were in conformity with Article 49-2 of the Luxembourg Company Law and the EU Commission Regulation 2273/2003 on exemptions for buyback programmes and stabilisation of financial instruments. The repurchased shares will either be cancelled or held as treasury shares to meet obligations arising under notes convertible into shares of the Company or any employee share option schemes.

During the financial year 8,567,073 (2011: 2,512,135) shares were repurchased by an indirect subsidiary of the Company.

As at 31 December 2012, no common shares (2011: Nil) were held directly by the Company as treasury shares.

As at 31 December 2012, 17,662,188 (2011: 10,403,599) treasury shares were held by an indirect, wholly-owned subsidiary of the Company and 2,492,344 (2011: 2,651,803) 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 Subsea 7 Group.

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

### **Notes to the annual accounts as at 31 December 2012**

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

##### *Seven Havila loan*

In February 2013, the Group repaid and cancelled its external loan and guarantee facility and the export finance agreement described as the Seven Havila Loan as detailed in Note 11 'Commitments and guarantees'.

##### *Proposed dividend*

In the light of continued strong performance, the strength of the balance sheet and confidence in our business, the Board of Directors has decided to recommend shareholders to approve the payment of a special dividend of \$0.60 per share at the next AGM.

##### *Board of Directors*

Mr. Arild Schultz and Mr. Trond Westlie have communicated to the Board of Directors on 13 March their intention not to stand for re-election on expiry of their term as Directors of Subsea 7 S.A. at the next Annual General Meeting on 28 June 2013.