Subsea 7 S.A.

Annual Accounts
and
Report of the Réviseur d'Entreprises Agréé

31 December 2016

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

Subsea 7 S.A.
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Report of the Réviseur d'Entreprises Agréé

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

Report on the Annual Accounts
Following our re-appointment by the General Meeting of the Shareholders dated 14 April 2016, we have audited the accompanying Annual Accounts of Subsea 7 S.A., which comprise the balance sheet as at 31 December 2016 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 2016, 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, which is the responsibility of the Board of Directors, is consistent with the Annual Accounts and has been prepared in accordance with applicable legal requirements.

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

Ernst & Young S.A.
Société anonyme
Cabinet de révision agréé

Thierry Bertrand
Luxembourg, 1 March 2017

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,

The Board of Directors of the Company is pleased to submit for your approval the balance sheet as at 31 December 2016 and the profit and loss account for the year then ended.

The loss for the financial year ended 31 December 2016 was $28.3 million (2015: loss of $1,322.2 million). The loss was mainly as a result of $50.7 million (2015: $48.4 million) interest payable and similar expenses and other operating expenses amounting to $28.2 million (2015: $81.4 million), this was partially offset by income generated from the provision of parent company guarantees amounting to $50.6 million (2015: $81.4 million).

As at 31 December 2016 the Company had net current liabilities of $924.6 million (2015: net current liabilities of $1,063.1 million). The Company has access to a short-term working capital facility provided by Subsea 7 Treasury (UK) Limited, an affiliated undertaking of the Company, which, in the opinion of the Board of Directors, provides sufficient liquidity to support the requirements of the Company. In addition the Board of Directors believes that should additional financing be required, over and above that available from the Subsea 7 Treasury (UK) Limited facility, this would be made available from affiliated undertakings.

The distributable reserves of the Company at 31 December 2016 totalled $1,479.2 million (2015: $1,506.7 million) and was represented by the share premium account, the profit or loss brought forward and the profit or loss for the financial year.

The Board of Directors has recommended that shareholders approve a special dividend of NOK 5.00 per share at the next Annual General Meeting on 12 April 2017. The proposed special dividend will be paid from the distributable reserves of the Company which in accordance with Luxembourg law includes the share premium account.

Allocation of the result

Of the loss of $1,322.2 million for the year ended 31 December 2015, $1,093.9 million was allocated to the share premium account and $228.3 million was allocated to profit or loss brought forward.

Equity and loan transactions

Share repurchases

The ongoing share repurchase programme for up to $200.0 million was initially authorised on 30 July 2014 and was extended for a further 24 months on 28 July 2015.

In order to satisfy performance shares under the Subsea S.A. group's 2013 Long-term Incentive Plan the Company repurchased, on 20 September 2016, a total of 200,000 common shares for a consideration of $2.0 million of which 190,255 were allocated to the employees as free shares. As at 31 December 2016 a total of 41,428 common shares were held by the Company as treasury shares.

Convertible loans repurchases

During 2016 the Company repurchased $112.6 million (nominal value) of the $700 million 1.00% convertible bonds due 2017 for $105.9 million in cash. These bonds have not been cancelled and continue to be held by the Company and are available for reissue at a future date.

Board of Directors

There were no changes to the Board of Directors during the year ended 31 December 2016.

If there is a vacancy on the Board of Directors, the remaining Directors appointed at the Annual 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.

Under the Company's Articles of Incorporation, Directors may be elected for terms of up to two years and serve until their successors are elected. There will be four Directors standing for re-election at the 2017 Annual General Meeting: Mr Dod Fraser, Mr Robert Long, Mr Allen Stevens and Mr Kristian Siem. The current term of the remaining Directors, Sir Peter Mason KBE, Mr Jean Cahuzac and Mr Eystein Eriksrud, will expire in 2018. Under the Company's Articles of Incorporation, the Board of Directors must consist of no fewer than three 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.

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 and acts as the holding company for all of the Subsea 7 S.A. 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 No. B43172'. 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/.

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 extraordinary general meeting of shareholders (EGM) to resolve upon any amendment to the Articles of Incorporation. An EGM must have a quorum of at least 50% of the shares outstanding present or represented. If that quorum is not reached, the EGM 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, its approval will require at least two thirds of the votes cast in favour at such EGM. Abstentions are not considered as votes.

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 and Group.

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 of the Group. The Company has governing structures and controls in place to ensure that the business is run in an appropriate manner for the benefit of shareholders, employees, clients and other stakeholders in the countries in which the Group operates.

One class of shares

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

Share issues

The Board of Directors is authorised to suppress the pre-emptive rights of shareholders under certain circumstances and within the limits set forth in the Articles of Incorporation of the Company. 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

The Company'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.

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.

Significant beneficial owners

The Company has been notified of the following significant shareholders who controlled 5% or more of the voting rights of the Company as at 31 December 2016:

	%
Siem Industries Inc.	**21.3**
Folketrygdfondet	**8.9**

Risks and uncertainties

The Company is a holding company and is therefore dependent on the earnings and cash flows of, and dividends and distributions from, its affiliated undertakings to pay expenses, meet its financial obligations, pay any cash dividends or distributions on its common shares or conduct share and convertible bond repurchases. Significant cash or cash equivalent balances are held from time to time in the Company's affiliated undertakings, including in particular those in the United Kingdom, where the Company maintains cash management systems under which most of its cash and cash equivalents are centralised, and in certain other countries in which the Group operates. Certain of these affiliated undertakings have debt outstanding or are subject to restrictions on the payment of dividends, but such restrictions are not significant in the context of the Company's overall liquidity. Repatriation of funds from affiliated undertakings may also be affected by tax and foreign exchange policies in place from time to time in the various countries where the Group operates, though none of these are significant in the context of the Group's overall liquidity. If the cash flows of its affiliated undertakings are substantially reduced, the Company may not be in a position to meet its operational needs or to make shareholder distributions.

Within the Company, investments in affiliated undertakings and amounts due from affiliated undertakings are reviewed periodically to assess whether there is objective evidence that the carrying amount of the investment or amounts due is impaired. In making this assessment, the Company considers whether or not they are able to recover the carrying amount 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 judgement. Estimating recoverable amounts involves complexity in estimating relevant future cash flows, based on assumptions about the future, and discounting to their present value. Long-term assumptions related to macro-economic factors are made at a Company level, and are subject to a high level of management review.

The Company is subject to certain risks and uncertainties which are common with those that exist within the Group as a whole, and the Company may be affected by these risks and uncertainties. Further details related to the principal risks and uncertainties which could materially adversely impact the Group's reputation, operations and/or financial performance and position are noted on pages 30 to 35 of Subsea 7 S.A.'s Annual Report and Consolidated Financial Statements 2016 which is available on the Group's website: www.subsea7.com.

Future developments

The Group operates in seabed-to-surface engineering, construction and services and within the offshore renewable energy sector. The low oil and gas price continues to depress industry activity as clients delay or cancel new projects; the timing of market recovery remains highly uncertain. Despite the difficult near to medium-term outlook, the fundamental long-term outlook for deepwater subsea field developments remains intact and industry activity is expected to recover when the oil and gas market rebalances. The Group has already implemented a number of initiatives to strengthen its position and will continue to actively adapt to industry conditions without losing its focus on long-term strategic priorities.

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.

Annual General Meeting

The Board of Directors has recommended that shareholders approve a special dividend of NOK 5.00 per share at the next Annual General Meeting on 12 April 2017.

Extraordinary General Meeting

An Extraordinary General Meeting (the "EGM") will also take place at the Company's registered office immediately after the AGM on 12 April 2017 in order to consider proposed amendments to the Company's articles of incorporation following recent changes to Luxembourg company law.

Directors' Responsibility Statement

We confirm that, to the best of our knowledge, the Annual Accounts for the year ended 31 December 2016 have been prepared in accordance with current applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company. We also confirm that, to the best of our knowledge, the 2016 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.

On behalf of the Board of Directors of Subsea 7 S.A.

Kristian Siem
Chairman
1 March 2017

Jean Cahuzac
Director - CEO

Subsea 7 S.A.

Balance Sheet

As at (in $'000)	Notes	**2016 31 Dec**	2015 31 Dec
Assets			
Fixed assets			
Financial fixed assets			
Shares in affiliated undertakings	3	**3,105,588**	3,972,466
Participating interests	3	**18,823**	18,823
Current assets			
Amounts owed by affiliated undertakings			
becoming due and payable within one year		**–**	3,008
Other debtors			
becoming due and payable within one year		**79**	91
Investments			
Own shares	6	**407**	266
Other investments	7	**246,821**	140,943
Cash at bank and in hand		**3**	1,074
Prepayments		**531**	818
Total assets		**3,372,252**	4,137,489
Capital, reserves and liabilities			
Capital and reserves			
Subscribed capital	4	**654,734**	654,734
Share premium account	4	**1,507,535**	2,601,629
Reserves			
Legal reserve	4, 5	**65,473**	66,433
Reserve for own shares	4, 6	**407**	266
Profit or (loss) brought forward	4	**–**	227,327
Profit or (loss) for the financial year	4	**(28,343)**	(1,322,240)
Total capital and reserves		**2,199,806**	2,228,149
Creditors			
Convertible loans			
becoming due and payable within one year	7	**700,000**	–
becoming due and payable after more than one year	7	**–**	700,000
Amounts owed to affiliated undertakings			
becoming due and payable within one year	8	**471,217**	1,080,203
becoming due and payable after more than one year	8	**–**	127,568
Other creditors			
Tax authorities		**3**	10
Other creditors			
becoming due and payable within one year		**1,226**	1,559
Total liabilities		**1,172,446**	1,909,340
Total capital, reserves and liabilities		**3,372,252**	4,137,489

The accompanying notes on pages 8 to 14 form an integral part of these Annual Accounts.

Subsea 7 S.A.

Profit and Loss Account

For the year ended (in $'000)	Notes	**2016 31 Dec**	2015 31 Dec
Other operating income	9	**50,628**	81,364
Raw materials and consumables and other external expenses			
Other external expenses	11	**(858)**	(1,187)
Staff costs			
Wages and salaries		**(132)**	(59)
Social security costs		**(18)**	(8)
Value adjustments in respect of formation expenses and of tangible and intangible fixed assets		**–**	(1,273,367)
Other operating expenses	12	**(28,171)**	(81,364)
Other interest receivable and similar income			
derived from affiliated undertakings		**2,731**	995
Value adjustments in respect of financial assets and of investments held as current assets		**(1,825)**	(192)
Interest payable and similar expenses			
concerning affiliated undertakings		**(45,838)**	(40,968)
other interest and similar expenses		**(4,857)**	(7,450)
Tax on profit or loss	13	**(3)**	(4)
Loss for the financial year		**(28,343)**	(1,322,240)

The accompanying notes on pages 8 to 14 form an integral part of these Annual Accounts.

Subsea 7 S.A.

Notes to the Annual Accounts
as at 31 December 2016

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 Subsea 7 S.A. group (the Group) consists of Subsea 7 S.A. and its affiliated undertakings at 31 December 2016.

The objects of the Company are to invest in affiliated undertakings which provide subsea construction, maintenance, inspection, survey and engineering services, predominantly for the offshore oil and gas and related industries. 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 affiliated undertakings of, or associated with the Company; in general it is authorised to undertake any operations directly or indirectly connected with these objects.

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 Annual Report and Consolidated Financial Statements are available at the registered office of the Company or at www.subsea7.com.

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 Board of Directors of the Company. The Company maintains its accounting records and presents its Annual Accounts in US Dollars ($). Further to a change in Luxembourg law the Company has adopted a revised presentation of the balance sheet and profit and loss Account. Significant accounting policies are as follows:

2.1. Financial fixed assets
Shares in affiliated undertakings, participating interests and investments held as fixed assets and own shares are stated at cost less any accumulated 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 review of the carrying amount is performed on an individual investment basis with resulting impairments 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 affiliated undertakings and participating interests.

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
Awards made under the Group’s Long-term Incentive Plans, in the form of equity-settled share-based payments, are satisfied by the Company on behalf of its affiliated undertakings. The costs associated with these awards are recognised within the affiliated undertakings 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. Equity-settled share-based payments are measured at fair value at the date on which they are granted, the fair value is determined using a Monte Carlo model.

2.4. Convertible loans
Convertible bonds are accounted for as debt instruments. The financial 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 expenses. If the convertible bonds are converted at the option of the holders the deferred debt cost is expensed within the profit and loss account immediately.

2.5. Parent company guarantees

The Company issues parent company guarantees (PCGs) to third parties on behalf of its direct and indirect affiliated undertakings where requested. The Company receives a fee in respect of the PCGs issued, which is recorded as other operating income within the profit and loss account. This income is recognised on a straight-line basis over the period of the guarantee.

2.6. Interest payable and receivable

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

2.7. Amounts owed by affiliated undertakings and other debtors

Amounts owed by affiliated undertakings and other debtors are recognised initially at nominal amount. 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. Amounts owed to affiliated undertakings and other creditors

Amounts owed to affiliated undertakings and other creditors are stated at nominal amount.

3. Financial fixed assets

($'000)	Shares in affiliated undertakings	Participating interests
Cost		
At 1 January 2016	5,245,833	18,823
Acquisitions in year	–	–
Return of capital	(866,878)	–
At 31 December 2016	**4,378,955**	**18,823**
Accumulated value adjustments		
At 1 January 2016	(1,273,367)	–
Value adjustments in year	–	–
At 31 December 2016	**(1,273,367)**	**–**
Carrying amount at 31 December 2016	**3,105,588**	**18,823**

An impairment review of the financial fixed assets was performed as at 31 December 2016 and no impairment was deemed necessary. On 15 December 2016, Acergy Holdings (Gibraltar) Limited, an affiliated undertaking, returned capital to the Company amounting to $866.9 million.

Shares in affiliated undertakings

		Percentage held		Carrying amount ($'000)	
Name of the Company	Country	2016	2015	**2016**	2015
Acergy Holdings (Gibraltar) Limited	Gibraltar	100%	100%	**2,584,070**	3,450,948
Subsea 7 International Holdings (UK) Limited	UK	100%	100%	**521,518**	521,518
Total shares in affiliated undertakings				**3,105,588**	3,972,466

Participating interests

		Percentage held		Carrying amount ($'000)	
Name of the Company	Country	2016	2015	**2016**	2015
Subsea 7 Shipping Limited	Isle of Man	<1%	<1%	**18,823**	18,823

The capital, reserves and profit and loss of the affiliated undertakings of the Company are included within the Consolidated Financial Statements of Subsea 7 S.A., and the Company has applied the exemption, in accordance with Art. 67 (3) b of the law of 19 December 2002, to not disclose this information.

4. Capital and reserves

($'000)	Subscribed capital	Share premium account	Legal reserve	Reserve for own shares	Profit or (loss) brought forward	Profit or (loss) for the financial year	Total
Balance at 1 January 2016	654,734	2,601,629	66,433	266	227,327	(1,322,240)	2,228,149
Allocation of the result	–	(1,093,953)	–	–	(228,287)	1,322,240	–
Reduction of legal reserve	–	–	(960)	–	960	–	–
Net purchase of treasury shares	–	(141)	–	141	–	–	–
Loss for the financial year	–	–	–	–	–	(28,343)	(28,343)
Balance at 31 December 2016	**654,734**	**1,507,535**	**65,473**	**407**	**–**	**(28,343)**	**2,199,806**

As at 31 December 2016, the authorised share capital comprised 450,000,000 $2.00 common shares (2015: 450,000,000 $2.00 common shares). The subscribed capital comprised 327,367,111 $2.00 common shares (2015: 327,367,111 $2.00 common shares).

5. 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 nominal 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 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.

Following the reduction in subscribed capital in 2015, the AGM on 14 April 2016 approved the reduction of the legal reserve by an amount of $960,000.

6. Reserve for own shares

	2016 Number of shares	**2016** ($'000)	2015 Number of shares	2015 ($'000)
At year beginning	**31,683**	**266**	–	–
Shares repurchased	**200,000**	**1,966**	4,907,956	52,180
Shares cancelled	**–**	**–**	(4,799,956)	(51,229)
Shares reissued relating to share-based payments	**(190,255)**	**(1,825)**	(76,317)	(685)
Balance at year end	**41,428**	**407**	31,683	266

At 31 December 2016, the Company directly held 41,428 (2015: 31,683) treasury shares amounting to 0.01% (2015: 0.01%) of the total number of issued shares.

On 20 September 2016, the Company purchased 200,000 treasury shares for a consideration of $2.0 million.

During the year ended 31 December 2016 190,255 treasury shares were reissued to satisfy the first tranche of shares released to participants under the 2013 Long-term Incentive Plan. During 2015, 76,317 treasury shares were used to satisfy options exercised under the 2003 Plan.

7. Convertible loans

$700 million 1.00% convertible bonds due 2017 (2017 Bonds)

On 5 October 2012, the Company 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 allowed them to convert the convertible bonds into common shares with an initial conversion price of $30.10 per share at the date of issue, equivalent to 23,255,814 common shares or approximately 7.1% of the Company's issued share capital (excluding treasury shares held).

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

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

- the 2017 Bonds are unsecured but contain a negative pledge provision which restricts encumbrances or security interests on current and future property or assets to ensure that the convertible bonds will rank equally with other publicly quoted or listed debt instruments
- a cross default provision subject to a minimum threshold of $25.0 million and other events of default in connection with non-payment of the 2017 Bonds
- various undertakings in connection with the term of any further issuance of common shares and continuance of the listing of the shares
- provisions for the adjustment of the conversion price in certain circumstances.

Bond repurchases

During the year ended 31 December 2016 the Company repurchased $112.6 million (nominal value) of the 2017 Bonds for $105.9 million in cash. At 31 December 2016 the Company held $264.4 million (nominal value) of the 2017 Bonds, (2015: $151.8 million at nominal value), at a carrying amount of $246.8 million (2015: $140.9 million). These have not been cancelled and continue to be held by the Company and are available for reissue at a future date.

8. Amounts owed to affiliated undertakings

Becoming due and payable within one year

($'000)	**2016**	2015
Amounts owed to affiliated undertakings	**471,217**	1,080,203

Amounts owed to affiliated undertakings are mainly related to amounts due to Subsea 7 Treasury (UK) Limited under a short-term working capital facility as described in the Report of the Board of Directors.

Becoming due and payable after more than one year

($'000)	**2016**	2015
Amounts owed to affiliated undertakings	**–**	127,568

On 15 December 2016, the Company repaid the principal sum of a $127.6 million loan note owed to Acergy Holdings (Gibraltar) Limited, an affiliated undertaking. The transaction was settled through the Group's short-term working capital agreement.

9. Other operating income

($'000)	**2016**	2015
Parent company guarantee income	**50,628**	81,364

10. 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 affiliated undertakings have towards their clients.

Facilities

The multi-currency revolving credit and guarantee facility

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

The Export Credit Agency (ECA) senior secured facility

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

Other facilities

In addition to the above there are a number of uncommitted, unsecured bi-lateral guarantee arrangements in place in order to provide specific geographical coverage. The total utilisation of these facilities as at 31 December 2016 was $451.3 million (2015: $476.1 million).

Guarantee arrangements with joint ventures

Normand Oceanic AS (NOAS) is a joint venture between Solstad Offshore ASA and the Group. NOAS is the vessel owning entity for Normand Oceanic and has a $152.3 million loan facility which it used to part-finance the purchase of the vessel. The loan has a maturity date of 20 July 2017 with an outstanding balance at 31 December 2016 of $109.1 million (2015: $119.3 million). NOAS also entered into an interest rate swap, maturing on 19 July 2017, swapping a floating rate based on LIBOR to a fixed rate of 0.85% per annum. Both Solstad Offshore ASA and Subsea 7 S.A. have provided guarantees to the banking syndicate each guaranteeing 50% of the payment obligations and liabilities under the loan and hedging agreements.

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

SapuraAcergy is the collective term for the Group's investments in its joint ventures SapuraAcergy Assets Pte Limited (SAPL) and SapuraAcergy Sdn. Bhd. (SASB). The joint venture partner for both joint ventures is Nautical Essence Sdn. Bhd. which is wholly-owned by SapuraKencana Petroleum Berhad. At 31 December 2016, SASB had an $82.8 million multi-currency facility in place (2015: $82.8 million multi-currency facility). Both Subsea 7 S.A. and SapuraKencana Petroleum Berhad had issued guarantees for 50% of the financing respectively. The facility consisted of $40.0 million available for the issuance of the principal bank guarantees and $30.0 million available for letters of credit, a revolving credit facility totalling $5.5 million and a $7.3 million foreign exchange facility. At 31 December 2016, the amount drawn under the principal bank guarantee was $30.4 million (2015: $35.4 million); all other facilities noted were undrawn (2015: $nil).

11. Other external expenses

($'000)	**2016**	2015
Administrative expenses	**822**	1,144
Statutory audit fees	**36**	43
Total	**858**	1,187

12. Other operating expenses

($'000)	**2016**	2015
Parent company guarantee costs	**–**	81,364
Corporate allocation and shareholders costs	**27,407**	–
Other operating expenses	**764**	–
Total	**28,171**	81,364

In the prior year certain corporate costs and benefits were recognised by the Company and passed to an affiliated undertaking of the Company. This arrangement ceased in the year ended 31 December 2016.

13. Tax on profit or loss

($'000)	**2016**	2015
Tax charge for the year	**3**	4

For the year ended 31 December 2016 the Company was fully taxable at an effective rate of 29.22% (2015: 29.22%). For tax purposes the loss recorded for the year ended 31 December 2016 resulted in only the minimum net wealth tax liability being incurred.

14. Share-based payments

Awards made under the Group's Long-term Incentive Plans, in the form of equity-settled share-based payments, are satisfied by the Company on behalf of its affiliated undertakings. 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 Long-term Incentive Plan during 2013.

The 2009 LTIP provided conditional awards of shares subject to performance conditions over a performance period of at least three years.

Performance conditions are based on relative Total Shareholder Return (TSR) against a specified comparator group of companies and are determined over a three-year period. The Group will have to deliver TSR above the median for any awards to vest. At the median level, 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.

2013 Long-term Incentive Plan

The 2013 Long-term Incentive Plan (2013 LTIP) was approved by the Company's shareholders at the Annual General Meeting on 28 June 2013. The 2013 LTIP has a five-year term with awards being made annually. The aggregate number of shares which may be granted in any calendar year is limited to 0.5% of issued and outstanding share capital on 1 January of 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 conditional awards of shares based upon performance conditions over a performance period of at least three years.

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

During 2016, initial grants comprising 1,021,000 (2015: 1,273,500) conditional awards of shares were made under the terms of the 2013 LTIP; 663,650 (2015: 827,775) awards are subject to relative TSR performance measures and 357,350 (2015: 445,725) are subject to ROAIC performance measures.

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

14. Share-based payments (continued)

2013 Long-term Incentive Plan (continued)

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 160 senior managers and key employees participate in the 2013 LTIP. Individual award caps are in place such that no senior executive or other employee may be granted shares under the 2013 LTIP in a single calendar year that have an aggregate fair market value in excess of 150%, in the case of senior executives, or 100%, in the case of other employees, of their annual base salary as 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.

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's 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 2016. Share option exercises are satisfied by reissuing treasury shares. Furthermore, options are generally forfeited if the option holder leaves the Group under any circumstances other than due to the option holder's death, disability or retirement before his or her options are exercised.

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

15. Staff

The average full-time equivalent number of employees of the Company for the year ended 31 December 2016 was 1.4 (2015: 0.4).

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. During the year ended 31 December 2016 payments totalling $200,000 (2015: $200,000) were made to Siem Industries Inc. in relation to the services provided by Mr Siem to the Company.

17. Board of Directors' expenses

Fees paid to Directors for the year ended 31 December 2016 amounted to $571,000 (2015: $571,000).

18. Subsequent events

Annual General Meeting

The Board of Directors has recommended that shareholders approve a special dividend of NOK 5.00 per share at the next Annual General Meeting on 12 April 2017.

Extraordinary General Meeting

An Extraordinary General Meeting (the "EGM") will also take place at the Company's registered office immediately after the AGM on 12 April 2017 in order to consider proposed amendments to the Company's articles of incorporation following recent changes to Luxembourg company law.