

Subsea 7 International Contracting Limited

Report and Financial Statements

For the year ended 31 December 2016

Registered Number 03073521

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Subsea 7 International Contracting Limited

Report and Financial Statements for the year ended 31 December 2016

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**Directors and Other Information
for the year ended 31 December 2016**

Directors

John Gordon
Stephen McNeill
Jonathan Tame
Marcelo Xavier

Company Secretary

Lorna Peace
Subsea 7 M.S. Limited

Registered Office

40 Brighton Road
Sutton
Surrey
England
SM2 5BN

Independent Auditor

Ernst & Young LLP
Statutory Auditor
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

Strategic Report**for the year ended 31 December 2016**

The Directors present their Strategic Report for Subsea 7 International Contracting Limited (the "Company") for the year ended 31 December 2016. This report is specific to the Company and not the wider Subsea 7 group. The results for the wider Subsea 7 group are contained within the Annual Report and Consolidated Financial Statements of Subsea 7 S.A. which can be found at www.subsea7.com.

Review of the business

The Company is the predominant vessel operator to the Subsea 7 S.A. Group, (the "Group"). Revenue has decreased by \$227 million in the year to \$820 million (2015: \$1,047 million) reflecting lower levels of market activity and vessel utilisation experienced throughout the year. Net operating income was \$219 million (2015: \$138 million) an increase of \$81 million which was driven by increased operational performance and cost efficiencies on subsea installation project services in Brazil. The profit for the year, after taxation was \$198 million (2015: \$121 million). The Directors do not recommend the payment of a dividend for the year. Based on the 2015 taxable profits of the Company's Norwegian permanent establishment, a Group contribution of \$15 million was made to a fellow Group undertaking in accordance with the requirements under Norwegian tax legislation.

Key performance indicators

Under s414c of the Companies Act 2006, the Directors are required to disclose the Company's financial and non-financial Key Performance Indicators. The Subsea 7 S.A. group, being Subsea 7 S.A. and its subsidiaries, (the "Group"), manages its operations at a segmental and geographical level. For these reasons the Directors believe that the disclosure of Key Performance Indicators for the Company and the Group is not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group, which includes this company, is discussed in the Annual Report and Consolidated Financial Statements of the ultimate parent undertaking, Subsea 7 S.A.

The Directors are satisfied with the performance and results of the Company for the year.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The Company is subject to management processes applicable to the entire Group. The Group's risk management programme seeks to limit the adverse effects of these factors on the financial performance of Group companies. Information on how the risks specific to the Company arise are set out below, as are the objectives, policies and processes for their management and the methods used to measure each risk. The key business risks and uncertainties affecting the Company include:

Economic risk

The Company's business is dependent on the level of activity in the oil and gas and renewable energy industries and, consequently, any significant change in the level or timing of clients' expenditure plans could adversely impact order intake and levels of activity. Such plans could be impacted by demand for, and the price of, oil and gas and renewable energy. In the current economic climate, failure by a client or a client experiencing financial difficulties could lead to late or non-collection of amounts owed. In the medium term, demand for these hydrocarbons could also be affected by the introduction of alternative energy sources.

The Company, via the wider Group, works closely with its clients to understand their future plans and where appropriate seeks to diversify selectively into new markets within the oil and gas and renewable energy service sector. The financial strength and solvency of clients is always considered before entering into a contract and is a specific area of focus in the current economic climate. In addition the Company has reviewed, adjusted and continues to adjust its cost base to reflect the current uncertainties in the market.

Competition risk

The Company faces competition for both contracts and resources. Competition could result in pricing pressures, lower sales and reduced margins that would have an adverse effect on operating results and the financial position and performance of the Company. The Company's experience, resources, in particular its access to an extensive fleet and technological abilities, help it to respond effectively to challenges from competitors. A further differentiator is both the Company and Group's ability to partner with clients and form alliances with other oilfield service companies to contribute to the early development stages of projects, as well as offer cost effective and efficient solutions to its clients.

Strategic Report (continued)
for the year ended 31 December 2016**Principal risks and uncertainties (continued)*****Employee related risk***

The management of the business and the execution of the Company's strategy are subject to a number of employee related risks. The Company's performance could be adversely affected by the resignation of key individuals and the inability to recruit individuals with the right experience and skills. To mitigate these issues the Company has implemented a number of benefit and retention schemes that are designed to retain key individuals and operates a robust recruitment policy to attract the appropriate level of talented employees. The Company identifies staff training needs through regular staff appraisals and provides appropriate access to training to enable them to progress within the organisation. All promotion decisions are made based on merit.

Health, safety, security and environmental risk

The Company's projects are complex and require the monitoring and management of health, safety, security and environmental risks associated with them. A failure to manage these risks could expose our people and those who work with us to injury or harm and could result in significant commercial, legal and reputational damage. The Company has detailed health, safety, security and environmental policies which are designed to reduce such risks and ensure compliance with relevant laws and regulations. These policies are subject to monitoring and review and are externally certified by accreditation bodies.

Compliance and ethics

The Company's reputation and its ability to do business may be impaired by inappropriate behaviour by any of its employees, representatives or other persons associated with it. While the Company is committed to conducting business in a legal and ethical manner, there is a risk that its employees, representatives or such other persons may take actions that breach the Group's Code of Conduct or applicable laws, including but not limited to anti-bribery and anti-corruption laws. Any such breach could result in monetary penalties, convictions, debarment and damage to its reputation and could therefore impact the Group's ability to do business.

The Group's Code of Conduct is applicable to the Company and clearly sets out the behaviours expected of its employees and those who work with it. Mandatory e-learning courses are used to raise awareness of the Code of Conduct within the Group and encourage compliance. The Group has policies, procedures and controls in place to support and implement the Code of Conduct.

Geographic risk

The Company operates in various countries which give rise to a number of legal, regulatory, political, financial and operational risks and uncertainties. The Company is also exposed to risks in the area of compliance and ethics and must comply with local sanctions and export controls.

These risks are carefully considered prior to the Company working in specific regions and appropriate procedures are developed and implemented to mitigate their impact. Such risks can, on occasion, adversely impact the costs of project execution. The Company adopts a proactive and rigorous approach to assessing and mitigating these risks.

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. Cash and cash equivalents, primarily composed of deposits and investments are maintained with a number of major financial institutions in regions that the Company operates. The Company performs ongoing credit evaluations of counter-parties and generally does not require collateral from its customers. The credit risk on liquid funds is mitigated because the Company's counterparties are either Group undertakings or banks with high credit-ratings assigned by international credit rating agencies.

Strategic Report (continued)
for the year ended 31 December 2016

Principal risks and uncertainties (continued)

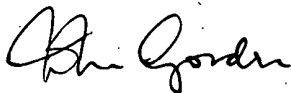
Cash flow and liquidity risk

The Company's working capital position is affected by the timing of contract cash flows where the timing of receipts from clients may not necessarily match the timing of payments made to suppliers. The availability of short-term and long-term financing may be required to meet obligations as they fall due.

The Company is part of the Group's centralised financing arrangements which, through committed banking facilities, seeks to meet the working capital requirements of all Group companies and finance the acquisition or construction of new assets. The Group actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure the Group has sufficient available funds for operations and planned expansions. The Company has access to a working capital facility provided by another Group company. The Group has access to committed external facilities and other sources of external finance which can be made available to the Company as required.

In the opinion of the Directors, the Company is well placed to successfully manage the principal risks and uncertainties.

On behalf of the Board



John Gordon

Director

22 August 2017

Directors' Report**for the year ended 31 December 2016**

The Directors present their report for Subsea 7 International Contracting Limited (the "Company") for the year ended 31 December 2016. This report is specific to the Company and not the wider Subsea 7 group. The results for the wider Subsea 7 group are contained within the Annual Report and Consolidated Financial Statements of Subsea 7 S.A. which can be found at www.subsea7.com.

Directors

The names of the current Directors are listed on page 1. All held office throughout the year with the exception of Jonathan Tame and Marcelo Xavier who were appointed Director on 1 July 2017. Victor Jorge Snabaitis Bomfin served as a Director until his resignation on the same date.

Qualifying third party indemnity provisions

The Company has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Principal activities

The principal activities of the Company were the charter of vessels from and to other Group companies and to provide project management and subsea installation services to the offshore oil and gas industry, particularly offshore Brazil. The Directors are not aware at the date of this report of any likely changes in the Company's activities in the forthcoming year.

Results and performance

The Statement of Comprehensive Income for the year is set out on page 10. The Company's total comprehensive income for the financial year of \$198 million (2015: \$121 million) has been transferred to reserves.

Dividends

The Company does not have a formal dividend policy. Dividends are recommended based on a review of financial position and financial performance by the Directors. Directors do not recommend the payment of a final ordinary dividend. (2015: nil)

Financial instruments

The Company is part of the Group's centralised financing risk management arrangements and manages financial risks through internal risk reports which analyse exposures by degree and magnitude of risks. Where appropriate the Group's risk management programme seeks to limit the adverse effects of risks and seeks to minimise the effects of these risks by using a variety of financial instruments to hedge risk exposures. The Group reviews compliance with policies and exposure limits on a regular basis and it does not enter into or trade financial instruments for speculative purposes.

The Company does not enter into financial instruments in order to manage foreign currency exposures.

Future developments

As part of the Group, the Company is well positioned to take advantage of future opportunities in a highly competitive and cost efficient market. The Company expects that the market will remain competitive as new competitors emerge and existing companies are increasing their capabilities. Activity levels in 2017 are expected to be lower than 2016. The Directors expect that revenue will continue to be generated from the charter of vessels from and to other Group companies and to provide project management and subsea installation services to the offshore oil and gas industry, particularly offshore Brazil.

Industry conditions remain challenging as oil and gas and renewable energy prices continue to impact levels of industry activity and new project awards. The timing of market recovery remains uncertain however assuming the oil price increases and cost reductions identified by the industry are achieved there is cause to believe that project awards could increase in the short to medium term. The fundamental long-term outlook for subsea field developments remains intact and industry activity is expected to recover when the oil and gas and renewable energy market rebalances. The Company has already implemented a number of initiatives to strengthen its position and will continue to actively adapt to industry conditions without losing focus on long-term strategic priorities.

Directors' Report (continued)
for the year ended 31 December 2016**Going concern**

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and its exposures to economic, competition, health, safety, security and environment, compliance and ethics, credit, cash flow and liquidity risk are described above and in the Strategic Report.

The Company has net assets of \$499 million (2015: \$300 million) and has considerable financial resources together with long-term customer contracts. The Directors have considered the forecast cash flow of the Company. It is considered to be sufficient to support continued trading operations for a period of twelve months from signing the financial statements. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

A large proportion of the Company's receivable balances are held with fellow Group undertakings. An impairment review has been performed on these balances and a provision has been made for receivable balances with certain Group companies. Due to the significant financial resources of the Group, the Directors consider the balances to be recoverable.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Events since the Balance Sheet date

Prior to the approval of the Financial Statements for the year ended 31 December 2016, the Company declared a dividend of \$465 million to Subsea 7 Senior Holdings (UK) Limited, the Company's immediate parent undertaking.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Report (continued)
for the year ended 31 December 2016

Disclosure of information to auditor

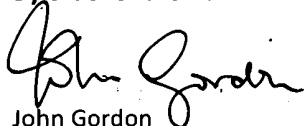
The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditor

Ernst & Young LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the Board



John Gordon

Director

22 August 2017

Independent Auditor's report to the members of Subsea 7 International Contracting Limited

We have audited the financial statements of Subsea 7 International Contracting Limited for the year ended 31 December 2016 which comprise Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

**Independent Auditor's report to the members of Subsea 7 International Contracting Limited
(continued)**

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Kevin Weston (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Aberdeen

Date 22/8/2017

Subsea 7 International Contracting Limited

Statement of Comprehensive Income for the year ended 31 December 2016

	Note	2016 \$000	2015 \$000
Revenue	5	819,886	1,046,642
Operating expenses	6	(601,106)	(908,418)
Net operating income	6	218,780	138,224
Finance income	12	4,134	2,223
Other gains	11	2,681	6,424
Finance costs	13	(2)	(18)
Non-operating expense	14	(15,211)	-
Net Income before taxes		210,382	146,853
Taxation	15	(12,015)	(25,455)
Net Income		198,367	121,398
Total comprehensive income		198,367	121,398

Subsea 7 International Contracting Limited

Balance Sheet

As at 31 December 2016

	Note	2016 \$000	2015 \$000
Assets			
Non-current assets			
Property, plant and equipment	16	8,592	38,117
Advances and receivables	17	6,051	4,718
Deferred tax assets	15	725	4
		15,368	42,839
Current assets			
Inventories	18	8,063	8,154
Trade and other receivables	19	587,062	367,024
Accrued income and prepaid expenses	20	38,086	33,780
Cash and cash equivalents		9,815	28,440
		643,026	437,398
Total assets		658,394	480,237
Equity			
Issued share capital	21	-	-
Paid in surplus		40,000	40,000
Retained earnings		458,579	259,686
Equity attributable to shareholders		498,579	299,686
Liabilities			
Non-current liabilities			
Provisions	22	853	3,339
Other non-current liabilities	24	619	713
		1,472	4,052
Current liabilities			
Trade and other liabilities	25	140,817	143,724
Current tax liabilities		10,566	16,875
Provisions	22	3,654	10,396
Construction contracts - Liabilities		-	291
Deferred revenue	26	3,306	5,213
		158,343	176,499
Total liabilities		159,815	180,551
Total equity and liabilities		658,394	480,237

The notes to these Financial Statements on pages 13 to 35 are an integral part of these Financial Statements.

The financial statements of Subsea 7 International Contracting Limited, Company Number 03073521 on pages 10 to 35 were approved by the Board of Directors on 22 August 2017 and were signed on its behalf by:


John Gordon
Director

Subsea 7 International Contracting Limited

Statement of Changes in Equity for the year ended 31 December 2016

	Note	Share capital \$000	Share premium account \$000	Retained earnings \$000	Total \$000
At 1 January 2016		-	40,000	259,686	299,686
Net Income		-	-	198,367	198,367
Share-based compensation	29	-	-	526	526
At 31 December 2016		-	40,000	458,579	498,579

At 1 January 2015		-	40,000	137,777	177,777
Net Income		-	-	121,398	121,398
Share-based compensation	29	-	-	511	511
At 31 December 2015		-	40,000	259,686	299,686

Subsea 7 International Contracting Limited

Notes to the Financial Statements for the year ended 31 December 2016

1 General information

The Financial Statements and notes contained within this document are specific to Subsea 7 International Contracting Limited (the "Company") and not the wider Subsea 7 group. The results for the wider Subsea 7 group are contained within the Annual Report and Consolidated Financial Statements of Subsea 7 S.A., which can be found at www.subsea7.com.

The Financial Statements of the Company for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 22 August 2017. The Company is a limited company incorporated and domiciled in the United Kingdom. The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

Basis of preparation

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. In line with 'The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (SI 2015/980)' the Company has chosen to adapt the formats of the Balance Sheet and Statement of Comprehensive Income and has applied the relevant presentation requirements of IAS 1 'Presentation of Financial Statements'.

The Financial Statements are presented in United States Dollars (\$) which is the Company's functional and presentation currency, being the currency of the primary economic environment in which the Company operates. All values are rounded to the nearest thousand dollars (\$000) except when otherwise indicated.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IAS 7 'Statement of Cash Flows',
- (b) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share-Based Payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined),
- (c) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures' (requirement to disclose key management personnel compensation in total),
- (d) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective),
- (e) the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member,
- (f) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 'Property, Plant and Equipment';
- (g) the following paragraphs of IAS 1 'Presentation of Financial Statements'.
 - 10(d) (statement of cash flows),
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its Financial Statements, or when it reclassifies items in its Financial Statements),
 - 16 (statement of compliance with IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-38D (additional comparative information),

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

General information (continued)

- 40A-40D (requirements for a third statement of financial position),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures)
- (h) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 'Impairment of Assets' (assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts),
- (i) the requirements of IFRS 7 'Financial Instruments: Disclosures',
- (j) the requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and its exposures to economic, competition, health, safety, security and environment, compliance and ethics, credit, cash flow and liquidity risk and in the Strategic Report and Directors' Report.

The Company has net assets of \$499 million (2015: \$300 million) and has considerable financial resources together with long-term customer contracts. The Directors have considered the forecast cash flow of the Company. It is considered to be sufficient to support continued trading operations for a period of twelve months from signing the financial statements. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

A large proportion of the Company's receivable balances are held with fellow Group undertakings. An impairment review has been performed on these balances and a provision has been made for receivable balances with certain Group companies. Due to the significant financial resources of the Group, the Directors consider the balances to be recoverable.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

2 Adoption of new accounting standards

No new International Financial Reporting Standards (IFRS) were adopted by the Company for the financial year beginning 1 January 2016. Amendments effective for the financial year beginning 1 January 2016 have been adopted however none of these amendments have had a material impact on the financial results of the Company.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

3 Judgement and key sources of estimation uncertainty

In the application of the Company's accounting policies which are described in Note 4 'Significant accounting policies', management is required to make judgements, estimates and assumptions regarding the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that the Company believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

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

Property, plant and equipment

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

A review for indicators of impairment is performed at each reporting date. When events or changes in circumstances indicate that the carrying value of property, plant and equipment may not be recoverable, a review for impairment is carried out by management. This involves the estimation of future cash flows attributable to the asset and an applicable discount rate. Where required, fair value less costs of disposal is estimated internally or by obtaining a third party valuation. Costs of disposal are included where a reliable estimate can be made.

Carrying value of loans and receivables

Loans and receivables are reviewed at least annually for objective evidence to indicate whether the carrying values are impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or default or significantly delay payments are considered to be objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recognised. In determining this, management reviews historical experience, recent and expected future financial performance and financial position. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

Recognition of provisions and disclosure of contingent liabilities

When a potential exposure is identified management uses its judgement in determining whether the Company should recognise a provision or disclose a contingent liability. These judgements include whether the Company has a present obligation and the probability that an outflow of economic benefit is required to settle the obligation. Management may also use its judgement to determine the amount of the obligation. Management uses external advisers to assist with some of these judgements. Further details relating to provisions and contingent liabilities can be found in Note 22 'Provisions' and Note 27 'Commitments and contingent liabilities'.

Taxation

The Company is subject to taxation in numerous jurisdictions and significant judgement is required in calculating the tax provision. There are transactions for which the ultimate tax determination is uncertain and for which the Company makes provisions based on an assessment of internal estimates and appropriate external advice, including decisions regarding whether to recognise deferred tax assets in respect of tax losses. Each year management completes a detailed review of uncertain tax positions and makes provisions based on the probability of the liability arising. Where the final tax outcome of these matters differs from the amounts that were initially recorded, the difference will impact the tax charge in the period in which the outcome is determined. Details of key judgements and other issues considered are set out in Note 15 'Taxation'

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

4 Significant accounting policies

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Service revenues

Revenues received for the provision of services under charter agreements, day-rate contracts, reimbursable/cost-plus contracts and similar contracts are recognised on an accruals basis as services are provided.

Dry-dock, mobilisation and decommissioning expenditure

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

Mobilisation expenditures, which consist of expenditure incurred prior to the deployment of vessels or equipment, are classified as prepayments and expensed over the project life.

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

Leasing

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

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

Improvements to leased assets are expensed in the Statement of Comprehensive Income unless they significantly increase the value of the leased asset, under which circumstance this expenditure will be capitalised and subsequently recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term applicable to the leased asset.

Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

At 31 December 2016 the main exchange rates used throughout the Company, compared to the US Dollar, were as follows:

GBP	0.809
EUR	0.959
NOK	8.680

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) **for the year ended 31 December 2016**

4 Significant accounting policies (continued)

Finance costs

Finance costs or charges, including premiums on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest rate method.

Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Finance income is accrued by reference to the principal outstanding and the interest rate applicable.

Taxation

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the Balance Sheet date.

Deferred taxes

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements, with the following exception; deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the future tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date.

Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the Statement of Comprehensive Income.

Property, plant and equipment

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

Assets under construction are carried at cost, less any recognised impairment charge. Depreciation of these assets commences when the assets are ready for their intended use.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

4. Significant accounting policies (continued)

Property, plant and equipment (continued)

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

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

Residual values, useful lives and methods of depreciation are reviewed at least annually and adjusted as appropriate.

The gains or losses arising on disposal of assets are determined as the difference between any disposal proceeds and the carrying amount of the asset. These are recognised in the Statement of Comprehensive Income in the period that the asset is disposed of.

Tendering and bid costs

Costs incurred in the tendering process are expensed as incurred.

Impairment of non-financial assets

At each Balance Sheet date the Company assesses whether there is any indication that non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value-in-use. Where an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset is allocated.

Where the carrying amount of an asset exceeds its recoverable value, the asset is considered impaired and is written down to its recoverable value. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects a normalised capital structure for the industry. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognised in the Statement of Comprehensive Income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each Balance Sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists the Company makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Any such reversal is recognised in the Statement of Comprehensive Income.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. The classification depends on the nature and purpose of the financial assets and liabilities which is determined at the time of initial recognition.

The Company's financial assets include cash and trade and other receivables.

The Company's financial liabilities include trade and other payables.

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

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) **for the year ended 31 December 2016**

4 Significant accounting policies (continued)

Impairment of financial assets

At each Balance Sheet date the Company assesses whether any indicators exist that a financial asset or group of financial assets is impaired. Impairment losses are recorded if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The impairment is recognised through the Statement of Comprehensive Income.

In any subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised; the previously recognised impairment loss will be reversed through the Statement of Comprehensive Income if the asset is accounted for at amortised cost.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank.

Trade and other receivables

Receivables are recognised initially at fair value. After initial recognition receivables are subsequently measured at amortised cost using the effective interest rate method. Interest income, together with gains and losses when receivables are derecognised or impaired, is recognised in the Statement of Comprehensive Income.

The Company assesses at each Balance Sheet date whether any indications exist that a receivable is impaired. A provision for impairment is made when there is objective evidence that the Company may not be able to collect all of the amounts due. Impaired trade receivables are derecognised when they are assessed as uncollectible.

Trade and other payables

Payables are recognised initially at fair value, net of transaction costs incurred. After initial recognition payables are subsequently measured at amortised cost using the effective interest rate method. Interest expenses (which don't meet the criteria for capitalisation), together with gains and losses when payables are derecognised or impaired, is recognised in the Statement of Comprehensive Income.

Inventories

Inventories comprise materials, consumables and spares and are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to conclude the sale.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past transaction or event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company is virtually certain that some or all of a provision will be reimbursed, that reimbursement is recognised as a separate asset. The expense relating to any provision is reflected in the Statement of Comprehensive Income at a current pre-tax amount that reflects the risks specific to the liability. Where the provision is discounted, any increase in the provision due to the passage of time is recognised as a finance cost.

Restructuring charges

The Company accounts for restructuring charges, including statutory legal requirements to pay redundancy costs, when there is a legal or constructive obligation that can be reliably measured. The Company recognises a provision for redundancy costs when it has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out restructuring.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) **for the year ended 31 December 2016**

4 Significant accounting policies (continued)

Provisions (continued)

Legal claims

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

Share-based payments

Certain employees of the Group whose costs have been recharged to the Company receive part of their remuneration in the form of conditional share options based on the performance of the Subsea 7 S.A. group. The expenses associated with the award of share-based payments are recharged to the company in which the employee's primary activities are located by the employee's employing entity at no mark-up. The company which benefits from the employee's primary activities incurs all expenses associated with share-based payments and is therefore responsible for eventual settlement of any outstanding awards and options.

Awards of shares to settle share-based payment arrangements to individual employees may be made by the Company's ultimate parent company, Subsea 7 S.A. on behalf of the Company at no cost to the Company.

Equity-settled transactions with employees are measured at fair value at the date on which they are granted. The fair value is determined using a Black-Scholes or Monte Carlo model. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

The cumulative expense recognised for equity-settled transactions at each Balance Sheet date, until the vesting date, reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The cumulative expense also includes the estimated future charge to be borne by the Company in respect of social security contributions, based on the intrinsic unrealised value of the share option using the share price on the Balance Sheet date. The net income or expense for a period represents the difference in cumulative expense recognised at the beginning and end of that period.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

5 Revenue

Revenue by activity

Revenue is generated from the provision of services. Revenue recognised in the Statement of Comprehensive Income is analysed as follows:

	2016 \$000	2015 \$000
SURF and Conventional	402,432	487,267
Vessel chartering	384,131	508,313
Personnel services	33,323	51,062
Total	819,886	1,046,642

SURF and Conventional

Revenue relates to the provision of Subsea Umbilicals, Risers and Flowlines (SURF) activities related to engineering, procurement, installation and commissioning of highly complex systems offshore. Conventional services include fabrication, installation, extension and refurbishment of fixed and floating platforms and associated pipelines in shallow water environments.

Vessel chartering

Revenue relates to the charter of vessels to other entities within the wider Subsea 7 S.A. group.

Personnel services

Revenue relates to the provision of employees on charter to other entities within the wider Subsea 7 S.A. group.

Revenue by geographic destination

	2016 \$000	2015 \$000
Africa	50,737	81,294
Asia	122	49,985
Australia	21,215	341
Europe (excluding United Kingdom)	92,409	74,905
Gulf of Mexico	-	7,525
North America	86,588	92,568
South America	357,250	389,506
United Kingdom	211,565	350,518
Total	819,886	1,046,642

Revenue by origin and destination are not materially different.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

6 Net operating income

Net operating income is stated after charging/(crediting):

	2016 \$000	2015 \$000
Employee benefits (Note 8)	14,286	23,070
Termination expenses	1,041	1,023
Restructuring expense	(26)	55
Depreciation of property, plant and equipment (Note 16)	21,198	6,658
Mobilisation costs	172	3,093
Impairment of property, plant and equipment (Note 16)	10,237	-
Impairment of trade receivables (Note 19)	10,237	14,154
Inventory recognised as an expense	19,579	35,676
Operating lease payments (Note 28)	32,596	31,763

7 Auditor's remuneration

During the year, fees payable to the Company's auditors for the audit of the Company's annual accounts was \$15,227 (2015: \$15,220). This amount was borne by another Subsea 7 S.A. group company.

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the Annual Report and Consolidated Financial Statements of its ultimate parent, Subsea 7 S.A.

8 Employee benefits

Aggregate benefits paid to employees of the Company are shown below:

	2016 \$000	2015 \$000
Short-term employee benefits	10,536	18,279
Social security costs	1,678	2,480
Pension costs	827	1,105
Other long-term benefits	619	713
Share-based payments	626	493
Total	14,286	23,070

Share-based payments expense relates to charges incurred by the Company in connection with equity-settled share-based payments schemes.

Included in pension costs are \$0.8 million (2015: \$1.1 million) in respect of defined contribution schemes.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

9 Employees

The average monthly number of employees during the year was made up as follows:

	2016 No.	2015 No.
Operations – onshore	70	75
Administration – general management	1	1
Administration – other	8	12
Total	79	88

10 Directors' remuneration

Aggregate remuneration paid to three Directors (2015: three Directors) of the Company for services provided to multiple companies within the Group is shown below:

	2016 \$000	2015 \$000
Aggregate remuneration	1,249	1,376
Aggregate amount received on long term incentive plan	59	-
Aggregate amounts (excluding shares) receivable under long-term incentive schemes	27	8
Company pension contributions to defined contribution schemes	190	210
Total	1,525	1,594

Retirement benefits are accruing to three Directors (2015: three Directors) under defined contribution schemes.

Highest paid Director

The remuneration of the highest paid Director was \$772 thousand (2015: \$891 thousand), including Company pension contributions to defined contribution schemes of \$142 thousand (2015: \$158 thousand).

11 Other gains and losses

	2016 \$000	2015 \$000
Net foreign currency exchange gains	2,681	6,424

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

12 Finance income

	2016 \$000	2015 \$000
Bank interest income	7	-
Interest income from Group undertakings	4,127	2,223
Total	4,134	2,223

13 Finance costs

	2016 \$000	2015 \$000
Interest on tax liabilities	2	18

14 Non-operating expense

	2016 \$000	2015 \$000
Norwegian tax loss payment	15,211	-

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

15 Taxation

Tax charged in the Statement of Comprehensive Income is disclosed as follows:	2016 \$000	2015 \$000
Current tax:		
UK corporation tax	6,684	11,453
Foreign tax	12,433	13,683
Current tax	19,117	25,136
Amounts (overprovided)/underprovided in previous years	(6,381)	110
Total current tax:	12,736	25,246
Deferred tax:		
Origination and reversal of temporary differences	(721)	209
Total deferred tax:	(721)	209
Taxation expense reported in the Statement of Comprehensive Income	12,015	25,455

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

	2016 \$000	2015 \$000
Accounting profit before taxation	210,382	146,853
Tax on ordinary activities at the standard UK rate of 20.00% (2015: 20.25%)	42,076	29,733
Effects of:		
Expenses not deductible for tax purposes	126	101
Share-based payment relief	(30)	-
Income not taxable	(236)	-
Higher taxes on overseas income	114	4,083
Tax (overprovided)/underprovided in previous years	(6,381)	110
Change in tax laws and rates	40	(9)
Excess of NBV over TWDV of assets transferred in	-	490
Net benefit of the tonnage tax regime	(23,694)	(9,053)
Taxation expense reported in the Statement of Comprehensive Income	12,015	25,455

UK Tonnage tax regime

The Company has elected to be taxed in accordance with the UK tonnage tax regime. As a result of this election, the deferred tax Balance Sheet position in respect of the Company's operated vessels reflects estimated future utilisation in UK waters or other non-qualifying Group activities.

Change in corporation tax rate

The UK corporation tax rate was reduced from 20% to 19% effective 1 April 2017 to be followed by a further reduction to 17% effective 1 April 2020. Deferred tax balances have been measured at the rates substantively enacted at 31 December 2015. The standard rate of tax for the period, based on the UK standard rate of corporation tax is 20% (2015: 20.25%). The tax charge for the current year is different to the standard rate for the reasons set out in the reconciliation.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

15 Taxation (continued)

Deferred tax

The deferred tax included in the Company Balance Sheet is as follows:	2016	2015
	\$000	\$000
<i>Deferred tax liability</i>		
Accelerated capital allowances	-	170
<i>Deferred tax asset</i>		
Provisions	147	174
Decelerated capital allowances	578	-
<i>Disclosed on the Balance Sheet</i>		
Deferred tax asset	725	4
	2016	2015
	\$000	\$000
<i>Deferred tax in the Statement of Comprehensive Income</i>		
Accelerated/(decelerated) capital allowances	(749)	(247)
Excess of NBV over TWDV of assets transferred in	-	490
Provisions	28	(25)
Change in tax laws and rates	-	(9)
Deferred tax (credit)/expense	(721)	209

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

16 Property, plant and equipment

	Vessels \$000	Operating equipment \$000	Other assets \$000	Total \$000
Cost				
At 1 January 2016	48,147	15,209	154	63,510
Additions	1,857	53	-	1,910
At 31 December 2016	50,004	15,262	154	65,420
Accumulated depreciation and impairment				
At 1 January 2016	10,338	14,901	154	25,393
Charge for the year	21,061	137	-	21,198
Impairment	10,237	-	-	10,237
At 31 December 2016	41,636	15,038	154	56,828
Net book value at 31 December 2016	8,368	224	-	8,592
Net book value at 31 December 2015	37,809	308	-	38,117

Change in accounting estimates

During the year, the estimated useful economic life of specific items of leased equipment was revised due to a change in the forecasted utilisation and a reassessment of the equipment's estimated residual value on disposal. The impact of this change was to accelerate depreciation on the equipment from a remaining useful economic life of 70 months to a revised remaining useful economic life of 10 months. The impact of this change on the net profit of 2016 was \$14.0million.

Impairments

During the year, management identified that a Tilttable Lay System on board the Normand Oceanic was expecting no probable future economic benefits to flow from the utilisation of this equipment and should the Group require it, a Vertical Lay System currently under construction would be the preferred option. The equipment was deemed to have no value in use and a fair value less cost of disposal of nil. An impairment charge of \$10.2 million (2015: nil) was recognised to fully impair the Tilttable Lay System.

Assets under construction

Included in the above are assets under construction of \$1.4 million (2015: \$0.4 million) for which the expenditure in the year amounted to \$nil (2015: \$3.4 million).

Vessel inventories

Included in the above are vessel spare parts transferred from inventory in accordance with IAS 16 'Property, Plant and Equipment'.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

17 Advances and receivables

	2016 \$000	2015 \$000
Other non-current receivables	6,051	4,718

Other non-current receivables consist of long term prepaid mobilisation expenditure.

18 Inventories

	2016 \$000	2015 \$000
Materials and spares	91	1,902
Consumables	7,972	6,252
Total	8,063	8,154

The Company's inventories consist of consumable items held in support of workshops and project operations plus equipment spare parts. Where appropriate, inventories are carried at cost less a provision for slow moving and obsolete items. The carrying amount of inventory is deemed to approximate replacement value. The cost of inventory recognised as an expense in the current year was \$19.6 million (2015: \$35.7 million). Inventories are stated after provisions of \$1.0 million (2015: \$2.2 million). The amount recognised as a credit in the current year for provision for slow moving and obsolete items was nil (2015: nil).

19 Trade and other receivables

	2016 \$000	2015 \$000
Trade receivables	3,499	11,491
Allowance for doubtful debts	(473)	-
Net trade receivables	3,026	11,491
Amounts due from joint ventures and associates	16,500	26,122
Amounts due from Group undertakings	566,673	328,042
Advances to suppliers	14	143
Other taxes receivable	657	653
Other current receivables	192	573
Total	587,062	367,024

The fair value of trade and other receivables approximate their carrying values due to the short period of time to maturity. Trade receivables and amounts due from joint ventures and associates are carried net of provisions. During the year a provision of \$9.8m was created in relation to the full amount owed to the Company by a joint venture entity based in Angola. There was also a provision of \$0.5 million created in line with the Group bad debt policy against trade receivables due from one customer.

Amounts due from Group undertakings include amounts due from all companies forming part of the Subsea 7 S.A. group with the exception of joint ventures and associates. Amounts due from Group undertakings that are party to the centralised Working Capital Agreement are unsecured, earn interest at a rate of 1% per annum, have no fixed date of repayment and are repayable on demand.

Amounts due from Group undertakings whose balances are cash-settled are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Other taxes receivable relate to valued added tax whilst other current receivables relate to accrued personnel recoveries.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

20 Accrued income and prepaid expenses

	2016 \$000	2015 \$000
Unbilled revenue	35,200	30,473
Prepaid expenses	2,886	3,307
Total	38,086	33,780

Unbilled revenue represents revenue due to the Company as at 31 December 2016 from day rate, reimbursable contracts. At the Balance Sheet date the majority of the revenue was due within 30 days.

Prepaid expenses represent mobilisation costs to be amortised within 12 months of the Balance Sheet date.

21 Issued share capital

The Company's allotted, called up and fully paid share capital is as follows:

	2016 \$000
Allotted, called up and fully paid	
40 Ordinary shares of £1 each	
	2016 No.
Allotted, called up and fully paid	
Ordinary shares of £1 each	
At 1 January	40
At 31 December 2016	40

22 Provisions

	Decommissioning \$000	Restructuring \$000	Other \$000	Total \$000
At 1 January 2016	3,339	145	10,251	13,735
<i>Analysed as:</i>				
Current	-	145	10,251	10,396
Non-current	3,339	-	-	3,339
<i>Arising during the year</i>				
Additional provision	1,096	72	-	1,168
Unused amounts released	-	(145)	(10,251)	(10,396)
At 31 December 2016	4,435	72	-	4,507
<i>Consisting of:</i>				
Current	3,582	72	-	3,654
Non-current	853	-	-	853

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

22 Provisions (continued)

Decommissioning provision

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

Restructuring provision

The restructuring provision relates to a programme of cost reduction measures including the resizing of the fleet and workforce.

23 Financial instruments

The Company's financial instruments are classified as follows:

	2016 \$000	2015 \$000
Financial assets		
Cash and cash equivalents	9,815	28,440
<i>Loans and receivables:</i>		
Trade receivables	3,026	11,491
Current amounts due from Group undertakings	566,673	328,042
Current amounts due from joint ventures and associates	16,500	26,122
Financial liabilities		
<i>Loans and payables:</i>		
Accruals	56,747	72,946
Trade payables	4,316	5,829
Current amounts due to Group undertakings	76,407	61,155
Current amounts due to joint ventures and associates	896	896
Other payables	69	2,898

Fair value measurement

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Where possible fair values are determined with reference to quoted prices however where unavailable fair values are determined using generally accepted pricing models. Assumptions used in determining fair value of financial assets and financial liabilities are as follows:

Trade and other receivables and payables

For current balances, the carrying values approximate fair values due to the short-term of maturity. The fair value of non-current financial assets and liabilities (excluding derivative financial instruments) are based on discounted cash flow analysis using prices from observable current market transactions or calculated by discounting expected future cash flows at prevailing market interest rates for instruments with the same terms and characteristics.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

24 Other non-current liabilities

	2016 \$000	2015 \$000
Accruals	619	713

The fair value of accruals approximate their carrying value and include the liability for a long-term cash bonus scheme.

25 Trade and other liabilities

	2016 \$000	2015 \$000
Accruals	56,747	72,946
Trade payables	4,316	5,829
Amounts due to joint ventures and associates	896	896
Amounts due to Group undertakings	76,407	61,155
Taxation and social security	2,382	2,844
Other current payables	69	54
Total	140,817	143,724

Trade payables are non-interest bearing and are normally settled on 60 day terms. Other creditors are non-interest bearing and have an average term of six months.

The fair value of trade and other liabilities approximate their carrying values due to the short period of time to maturity.

Amounts due to Group undertakings include amounts due to all companies forming part of the Subsea 7 S.A. group with the exception of joint ventures and associates. Amounts due to Group undertakings that are party to the centralised Working Capital Agreement are unsecured, incur interest at a rate of 3.45% per annum, have no fixed date of repayment and are repayable on demand.

Amounts due to Group undertakings whose balances are cash-settled are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Taxation and social security include valued added tax, social security and other indirect taxes. Also included are various employee benefit balances.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

26 Deferred revenue

	2016 \$000	2015 \$000
Advances received from clients	3,306	5,213

Advances received from clients include amounts received during vessel dry-docking periods. Revenue will be recognised on a monthly basis until the next scheduled dry-docking period.

27 Commitments and contingent liabilities

Commitments

The Company's commitments at 31 December 2016 include commitments to purchase property, plant and equipment from external suppliers. Capital expenditure contracted for at the Balance Sheet date but not yet incurred is as follows:

	2016 \$000	2015 \$000
Property, vessels, plant and equipment	24	4,228

Contingent liabilities

As at 31 December 2016 the Company had no contingent liabilities. (2015: none)

28 Operating lease arrangements

The amount charged to the Statement of Comprehensive Income in respect of operating leases in the year was \$32.6 million (2015: \$31.8 million).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 \$000	2015 \$000
Commitments under non-cancellable operating leases expiring:		
Within one year	24,717	31,894
Later than one year and no later than five years	27,519	7,917
Total	52,236	39,811

The Company has entered into a number of vessel charters under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

29 Share-based payments

Certain employees of the Company receive part of their remuneration in the form of conditional share options based on the performance of the Group. The expenses associated with the award of share-based payments are recharged to the company in which the employee's primary activities are located by the employee's employing entity at no mark-up. Expenses associated with the award of share-based payments incurred by or recharged to the Company and recognised in the Company's Statement of Comprehensive Income during the period are as follows:

For the period	2016 \$000	2015 \$000
Expense arising from equity-settled share-based payment transactions:		
2009 Long-term Incentive Plan	13	209
2013 Long-term Incentive Plan	513	302
Total	526	511

Equity-settled schemes

2009 Long-term Incentive Plan

The 2009 Long-term Incentive Plan ("2009 LTIP") was approved by the shareholders of Subsea 7 S.A. at the Extraordinary General Meeting on 17 December 2009. The 2009 LTIP had a five-year term but was replaced with the 2013 LTIP during 2013. The 2009 LTIP provided conditional share awards based upon performance conditions over a performance period of at least three years.

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

Selected senior managers and key employees participated in the 2009 LTIP. Grants were determined by the Compensation Committee of the Subsea 7 S.A. Board of Directors, 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 shareholders of Subsea 7 S.A. at the Annual General Meeting on 28 June 2013. The 2013 LTIP has a five-year term with awards being made annually and replaces the 2009 LTIP. The aggregate number of shares which may be granted in any calendar year is limited to 0.5% of issued and outstanding share capital on 1 January of each such calendar year. Grants are determined by the Compensation Committee of the Subsea 7 S.A. Board of Directors, which is responsible for operating and administering the plan.

The 2013 LTIP is an essential component of the Group reward strategy, and was designed to align the interests of participants with those of Subsea 7's shareholders, and enables participants to share in the success of the Group. The 2013 LTIP provides for conditional share awards based upon performance conditions over a performance period of at least three years.

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

Selected senior managers and key employees participate in the 2013 LTIP.

During 2016, initial grants comprising 61,000 (2015: 88,500) conditional awards of shares were made under the terms of the 2013 LTIP; 39,650 (2015: 57,525) shares are subject to relative TSR performance measures and 21,350 (2015: 30,975) are subject to ROAIC performance measures.

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued) for the year ended 31 December 2016

29 Share-based payments (continued)

2013 Long-term Incentive Plan (continued)

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 13,285 (2015: nil) were unconditionally released to participants.

TSR based awards

The Group will have to deliver a TSR ranking above the median for any awards to vest. If the ranked TSR position of Subsea 7 during the three-year period, as converted to a percentage, is equal to 50%, 20% of the share award will vest. If the actual ranked TSR position of Subsea 7 is greater than 50% and below 90%, the vesting of the share award between 20% and 65% is determined by linear interpolation. The maximum award of 65% would only vest if the Group achieved top decile TSR ranking.

ROAIC based awards

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

Under the terms of the award plan participants are not entitled to receive dividend equivalent payments. Individual award caps are in place such that no senior executive or other employee may be granted shares under the 2013 LTIP in a single calendar year that have an aggregate fair market value in excess of 150%, in the case of senior executives, or 100%, in the case of other employees, of their annual base salary as at the date of the award. Additionally, a holding requirement for senior executives applies where senior executives must hold 50% of all awards that vest until they have built up a shareholding with a fair value of 150% of their annual base salary which must be maintained throughout their tenure.

30 Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly-owned subsidiaries. Transactions entered into, and trading balances outstanding at 31 December with other related parties are as follows:

Related party	Sales to related party \$000	Purchases from related party \$000	Amounts owed by related party \$000	Amounts owed to related party \$000
<i>Joint ventures</i>				
2016	1,043	-	26,260	896
2015	16,500	896	26,122	896

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made on an arm's length basis. Outstanding balances with entities other than subsidiaries are unsecured, interest free. The Company has not provided or benefited from any guarantees for any related party receivables or payables. As at 31 December 2016, the Company has a provision for doubtful debts, relating to amounts owed by related parties, of \$9.2 million. (2015: nil)

Subsea 7 International Contracting Limited

Notes to the Financial Statements (continued)

for the year ended 31 December 2016

31 Post Balance Sheet events

Prior to the approval of the Financial Statements for the year ended 31 December 2016, the Company declared a dividend of \$465 million to Subsea 7 Senior Holdings (UK) Limited, the Company's immediate parent undertaking.

32 Ultimate and immediate parent undertaking and controlling party

The immediate parent undertaking of the Company is Subsea 7 Senior Holdings (UK) Limited, a company registered in England.

The Company's ultimate parent undertaking and controlling party at 31 December 2016 is Subsea 7 S.A. The largest (and smallest) group which includes these Financial Statements in their consolidation is the Subsea 7 S.A. Group. The Annual Report and Consolidated Financial Statements of Subsea 7 S.A. can be obtained from the address below or at www.subsea7.com.

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