

Subsea 7 (UK Service Company) Limited
Directors' Report and Financial Statements
For the year ended 31 December 2012

Registered Number: SC228749

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Subsea 7 (UK Service Company) Limited

Directors' Report and Financial Statements for the year ended 31 December 2012

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Subsea 7 (UK Service Company) Limited

Directors and Other Information

Executive directors

Robin Davies
Karen Lawrie
Joseph Leroy
Keith Tipson
Ricardo Rosa

Company secretary and registered office

Lorna Peace
East Campus
Prospect Road
Arnhall Business Park
Westhill
Aberdeenshire
AB32 6FE

Solicitors

Paul & Williamsons
6 Union Row
Aberdeen
AB10 1DQ

Independent auditor

Deloitte LLP
Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

Directors' Report for the year ended 31 December 2012

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2012.

Principal activities

The principal activity of the Company is the provision of personnel and consultancy services to the other companies in the Subsea 7 S.A. Group. In order to achieve this objective the Company endeavours to attract and retain high calibre individuals through competitive compensation and a range of additional benefits. Aligned to this, an effective training and development programme is available to all personnel.

Business review

The Company's key financial and other performance indicators for the year were as follows:

	2012	2011
	£	£
Revenue	227,101,839	112,782,448
Net operating income	4,787,454	1,489,674
Taxation	(3,838,456)	1,241,364
Total comprehensive (loss)/income for the year, net of tax	(831,198)	2,154,128
Total shareholder's equity	9,933,322	17,539,876
Average number of employees	1,677	1,083

In December 2011, the Company entered into an agreement to buy the trade, assets and liabilities, apart from specific excluded assets and liabilities, from fellow subsidiary entity, Subsea 7 M.S. Limited. The effective date for this agreement was 1 January 2012. The assets and liabilities were purchased at their carrying amounts. On 1 January 2012, employees from Subsea 7 M.S. Limited and Subsea 7 Contracting (UK) Limited transferred to the Company.

Revenue for the year was £227.1 million compared to £112.8 million in 2011. The increase in revenue is due to the increase in the number of employees in the Company who are then subsequently recharged to other group companies.

Net operating income for the year ended 31 December 2012 was £4.8 million compared to £1.5 million in 2011. The net operating margin (net operating income as a percentage of revenue) was 2.1% in 2012 compared to 1.3% in 2011. The increase in margin is attributable to the fact that share based payments were recharged out to the other group companies in 2012. The taxation charge for the year ended 31 December 2012 was £3.8 million (2011: £1.2 million tax credit).

Total comprehensive loss for the year, net of tax for the year ended 31 December 2012 was £0.8 million compared to £2.2 million income for the year ended 31 December 2011.

Results and dividends

The Statement of Comprehensive Income for the year is set out on page 6. The Company's total comprehensive loss net of tax for the year ended 31 December 2012 was £0.8 million (2011: £2.2 million). Dividends of £8.3 million were paid in 2012 (2011: £nil) through intercompany settlement. Dividends have been accounted for in equity as an appropriation of retained earnings in the year.

Future outlook

The Company's ultimate parent company, Subsea 7 S.A. is global leader in seabed-to-surface engineering, construction and services. Subsea 7 S.A. is well positioned to take advantage of future growth opportunities with access to an increased and diversified fleet of vessels, extensive fabrication and onshore facilities and greater depth of project management, engineering and technical expertise.

Directors' Report for the year ended 31 December 2012 (continued)**Going concern**

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The financial statements are prepared under the going concern basis of accounting as detailed in Note 1 to the financial statements.

Principal risks and uncertainties

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 schemes that are designed to retain key individuals.

Financial risk management policies

The Company's operations potentially expose it to a variety of financial risks that include the effects of changes in foreign exchange rates, credit risk, liquidity risk and interest rate risk. The Company is a member of the Subsea 7 S.A. Group ('the Group') which has in place a risk management programme that seeks to limit the adverse effects of these factors on the financial performance of the Group. These policies are also applicable to the Company. Further details explaining the Company's financial risk management are detailed in Note 4 to the Financial Statements.

Directors

The Directors of the Company who served during the year and up to the date of signing the financial statements were as follows:

Simon Crowe (resigned 31 July 2012)

Robin Davies

Tony Duncan (appointed 12 September 2012, resigned 31 January 2013)

Nina El-Imad (resigned 2 April 2012)

Isoken Imohe (resigned 18 May 2012)

Karen Lawrie (appointed 5 February 2013)

Antoine Legrand (appointed 5 February 2013, resigned 1 April 2013)

Joseph Leroy (appointed 1 April 2013)

Ricardo Rosa (appointed 31 July 2012)

Keith Tipson

Judith Tocher (appointed 18 May 2012, resigned 5 February 2013)

Employees and equal opportunity

The Company promotes equal opportunity and addresses unfair discrimination in every aspect of its operations. This is reflected in the Subsea 7 S.A. Group's corporate governance, management systems and operational activities.

The Group recognises that this goal can only be achieved by establishing a clear policy agenda which is then implemented and enforced by systematic management action. The Group's equal opportunities and diversity in employment policy is supported by encouraging open communications through line management, employee forums and environment committees. This is further underpinned by the provision of a confidential whistle-blowing helpline and training which focuses on the application of the Subsea 7 code of business conduct.

The Group has invested in open communications with the workforce through a variety of channels including regular newsletters and updates. In addition to day-to-day line manager briefings, this is achieved by formal employee representatives and environment committee forums.

Offshore, competence assessments and appraisals are conducted regularly whilst onshore; a comprehensive performance management system is deployed.

The Group holds a number of 'town hall' presentations every year which are hosted by Senior Management. These meetings are delivered around the organisation. At a local level, there are various meetings to address safety and operational issues as well as localised department and function meetings as appropriate.

Considerable effort is applied to ensure all employees are both informed and aware of organisational performance and goals for the future.

Directors' Report for the year ended 31 December 2012 (continued)

Political and charitable contributions

During the year the Company made various charitable contributions totalling £10,030 (2011: £2,100).

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 International Financial Reporting Standards (IFRS) as adopted by the European Union 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.

Disclosure of information to the auditor

So far, as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware. The Directors have taken steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditor

Deloitte LLP, were appointed as the Company's auditor in 2011 and 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



Robin Davies

Director

3 October 2013

Subsea 7 (UK Service Company) Limited

Independent Auditor's Report to the members of Subsea 7 (UK Service Company) Limited

We have audited the financial statements of Subsea 7 (UK Service Company) Limited for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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, 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 (APB's) 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 annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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.

G. Hollis

Graham Hollis ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Aberdeen, United Kingdom
8 October 2013

Subsea 7 (UK Service Company) Limited

Statement of Comprehensive Income for the year ended 31 December 2012

	Note	2012 £	2011 £
Revenue			
Provision of services		227,101,839	112,782,448
Employee benefits	7	(148,185,461)	(88,639,045)
Other operating expenses		(70,022,492)	(21,179,397)
Depreciation & amortisation	11,12	(3,858,407)	(1,474,332)
Impairment of property, plant & equipment	12	(248,025)	-
Total operating expenses		(222,314,385)	(111,292,774)
Net operating income		4,787,454	1,489,674
Net currency gain/(loss)		116,840	(370,875)
Finance income	9	350,826	513,835
Finance costs	9	(2,247,862)	(719,870)
Net financial items		(1,780,196)	(576,910)
Income before taxes		3,007,258	912,764
Taxation (expense)/income	10	(3,838,456)	1,241,364
Total comprehensive (loss)/income for the year, net of tax attributable to the shareholder		(831,198)	2,154,128

Balance Sheet

As at 31 December 2012

	Note	2012 £	2011 £
ASSETS			
Non-current assets			
Other intangible assets	11	5,764,146	1,276,492
Property, plant and equipment	12	4,093,394	2,717,071
Deferred tax assets	16	4,689,413	3,306,460
		14,546,953	7,300,023
Current assets			
Trade and other receivables	13	28,525,606	20,854,349
Cash and cash equivalents		751,874	362,888
		29,277,480	21,217,237
TOTAL ASSETS		43,824,433	28,517,260
EQUITY AND LIABILITIES			
Equity attributable to the shareholder of the parent			
Share capital	14	1	1
Retained earnings		9,933,321	17,539,875
Total equity		9,933,322	17,539,876
LIABILITIES			
Non-current liabilities			
Other non-current liabilities		869,518	-
		869,518	-
Current liabilities			
Trade and other payables	15	31,388,400	10,667,907
Current tax liabilities		1,633,193	309,477
		33,021,593	10,977,384
Total liabilities		33,891,111	10,977,384
TOTAL EQUITY AND LIABILITIES		43,824,433	28,517,260

The financial statements of Subsea 7 (UK Service Company) Limited, registered number SC228749, on pages 6 to 27 were approved by the board of directors on 3 October 2013 and were signed on its behalf by:



Robin Davies
Director

Subsea 7 (UK Service Company) Limited

Statement of Changes in Equity for the year ended 31 December 2012

	Share capital £	Retained earnings £	Total £
At 1 January 2012	1	17,539,875	17,539,876
Net loss	-	(831,198)	(831,198)
Share-based compensation (Note 21)	-	2,449,492	2,449,492
Tax effect of share-based payment (Note16)	-	(924,848)	(924,848)
Dividends paid	-	(8,300,000)	(8,300,000)
At 31 December 2012	1	9,933,321	9,933,322
At 1 January 2011	1	12,213,070	12,213,071
Net income	-	2,154,128	2,154,128
Share-based compensation (Note 21)	-	1,921,862	1,921,862
Tax effect of share-based payment (Note16)	-	1,250,815	1,250,815
At 31 December 2011	1	17,539,875	17,539,876

Retained Earnings

This reserve included the IFRS 2 'Share-based payment' charge relating to the Company's equity-settled share-based payments.

Subsea 7 (UK Service Company) Limited

Cash Flow Statement for the year ended 31 December 2012

	Note	2012 £	2011 £
Cash flows from operating activities			
Cash generated from operations	17	11,045,887	1,870,925
Finance income received		149	538
Finance expense paid		(6)	-
Taxation paid		(686,635)	(500,000)
Net cash from operating activities		10,359,395	1,371,463
Cash flows from investing activities			
Purchase of intangible assets	11	(6,423,484)	-
Purchase of property, plant and equipment	12	(3,546,925)	(1,172,514)
Net cash used in investing activities		(9,970,409)	(1,172,514)
Net increase in cash and cash equivalents		388,986	198,949
Cash and cash equivalents at 1 January		362,888	163,939
Cash and cash equivalents at 31 December		751,874	362,888

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

1 General information

The financial statements of Subsea 7 (UK Service Company) Limited for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 3 October 2013. 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 have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted by the European Union ('EU') and with those parts of the Companies Act 2006, applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the period. The estimates and judgements which are most significant or complex are disclosed in Note 5 to the financial statements.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The financial statements are prepared under the going concern basis of accounting because there are no material uncertainties related to events or conditions that cast significant doubt about the ability of the Company to continue as a going concern.

2 Adoption of new accounting standards

(i) Effective new accounting standards

The Company has adopted the following new and amended International Financial Reporting Standards and interpretations as of 1 January 2012:

IFRS 7 'Financial Instruments – Disclosures: The amendment requires additional disclosures regarding financial assets that have been transferred but not derecognised to enable the user of the Financial Statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures regarding continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The adoption of the amendment did not have any impact on the Company's financial position or performance.

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

Relevant new standards, amendments and interpretations issued by the International Accounting Standards Board ('IASB') but not yet effective and not applied in these financial statements are as follows:

Title	Effective Date	Date applicable to the Company
IFRS 9 – Financial Instruments (issued 12 November 2009) and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued 16 December 2011) *	1 January 2015	1 January 2015
IFRS 13 Fair Value Measurement (Issued 12 May 2011)	1 January 2013	1 January 2013
Presentation of Items of Other Comprehensive Income (Amendments to IAS 1), Issued 16 June 2011)	1 July 2012	1 January 2013
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 and IFRS 7), (issued 16 December 2011)	1 January 2014	1 January 2014
Improvements to IFRSs 2009-2011 (issued 17 May 2012)	1 January 2013	1 January 2013

* These standards, amendments or interpretations have not been endorsed for use by the EU at the date of this report and as a result the date applicable to the Company may change.

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

2 Adoption of new accounting standards (continued)

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 'Financial Instruments: Recognition and Measurement' and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases once issued.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 may impact the fair value measurements used in evaluating the carrying value of investments in subsidiaries for impairment testing. The changes are not expected to have a material impact on the Company but significant additional disclosures may be required.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net movement on cash flow hedges) will be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Company's financial position or performance.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 and IFRS 7)

The amendments clarify:

- the meaning of 'currently has a legally enforceable right of set-off'; and
- that some gross settlement systems may be considered equivalent to net settlement.

Further, the IASB issued disclosure requirements regarding the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The new disclosures will require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will assist users of the financial statements to understand the extent to which the Company has set off in its Balance Sheet and the effects of rights of set-off on the Company's rights and obligations. These amendments are not expected to impact the Company's financial position or performance.

Improvements to IFRSs 2009 – 2011

In May 2012, the IASB issued the Improvements to IFRSs 2009 – 2011, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The amendments which could impact the Company are:

- IAS 1 'Presentation of Financial Statements': The difference between voluntary additional comparative information and the minimum required comparative information is clarified. In addition, the opening balance sheet must be presented in the following circumstances: when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the balance sheet.
- IAS 16 'Property, Plant and Equipment': This amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 'Financial Instruments: Presentation': This amendment removes existing income tax requirements from IAS 32 and requires the Company to apply the requirements in IAS 12 to any income tax arising from distributions to shareholders of the parent Company.

The impact for the Company is not expected to be significant.

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

3 Significant accounting policies

Functional and presentation currency

The financial statements are presented in United Kingdom Pounds Sterling (£) which is the Company's functional and presentation currency, being the currency of the primary economic environment in which the Company operates.

Foreign currency translation

Statements of Comprehensive Income of foreign branches that prepare their results in a currency other than the United Kingdom Pounds Sterling are translated into United Kingdom Pounds Sterling at the weighted average exchange rates for each period and balance sheets are translated at the exchange rates ruling at year-end. The cumulative translation adjustments arising from the re-translation of the net investment in such entities are included in equity.

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.

The main exchange rates used throughout the Company at the balance sheet date, compared to the United Kingdom Sterling, were as follows:

USD	1.60
EUR	1.24
NOK	9.11

Intangible assets

Software

Software is measured initially at purchase cost and amortised on a straight-line basis over its estimated useful life of three to five years. The charge is included in administrative expenses in the Statement of Comprehensive Income.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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 losses.

Assets under construction are carried at cost, less any recognised impairment loss. Borrowing costs are capitalised in accordance with the Company's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

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

IT Infrastructure	3 to 5 years
Fixtures and Fittings	5 years

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

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

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

3 Significant accounting policies (continued)

Financial instruments

Overview

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.

Financial assets are classified into the following categories:

- fair value through the profit or loss ('FVTPL');
- loans and receivables; and
- derivatives designated as hedging instruments in an effective hedge.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

The Company's financial liabilities are all classified as 'other financial liabilities'. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded as the proceeds received, net of direct issue costs.

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

Initial recognition

All financial assets are recognised in the Balance Sheet and subsequently derecognised on the trade date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

Financial liabilities are recognised in the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

Initial measurement

Financial instruments are initially measured at cost plus transaction costs, with the exception of those classified as FVTPL and all derivatives which are measured at fair value.

Subsequent measurement – fair values

After initial recognition the fair values of derivatives are measured on bid prices for assets held and offer prices for issued liabilities based on values quoted in active markets.

Impairment

At each balance sheet date the Company assesses whether any indications 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.

Trade and other receivables

The Company assesses at each balance sheet date whether any indications exist that a financial asset or group of financial assets is impaired.

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

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

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

3 Significant accounting policies (continued)

Cash and cash equivalents

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

Borrowings

After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included within finance cost in the Statement of Comprehensive Income.

Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use are capitalised as part of the costs of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

The Company capitalises borrowing costs for all eligible assets where construction commenced on or after 1 January 2010. The Company continues to expense borrowing costs relating to construction projects which commenced prior to 1 January 2010.

Retirement benefits

The Company operates a number of defined contribution schemes. These schemes are administered separately from the Company and the Company has no further obligations in respect of these schemes once the contributions have been paid. Contributions to these schemes are recognised as an expense when incurred.

Share-based payments

Certain employees of the Company receive part of their remuneration in the form of share options, shares and cash-settled share-based bonuses based on the performance of the Subsea 7 S.A. group.

Equity-settled transactions with employees are measured at fair value at the date on which they are granted. The fair value is determined using a 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 stock option using the stock 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 (UK Service Company) Limited

Notes to the Financial Statements

3 Significant accounting policies (continued)

Cash-settled share-based payments are measured at fair value on the date on which the awards were granted. The cost is recognised and remeasured at the balance sheet date until the liability is settled with any changes in fair value recognised in the Statement of Comprehensive Income.

Revenue recognition

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

Rendering of services

Service revenue consists primarily of revenue received from billings that provide for specific time for personnel and associated costs which accrue daily and are billed periodically, ranging from weekly to monthly billing for the delivery of subsea services to customers over a contractual term. Service revenue is generally recognised when a signed contract or other persuasive evidence of an arrangement exists, the service has been provided, the fee is fixed or determinable and collection of resulting receivables is reasonably assured.

Taxation

Income tax

The tax expense represents the sum of the current tax and deferred tax.

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

Income tax assets or liabilities are representative of respective taxes being owed or owing to the local tax authorities and additional tax provisions which have been recognised in the computation of the Company's tax position. Full details of these positions are set out in Note 10 'Taxation'.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable net income, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable net incomes will be available against which deductible temporary differences can be utilised. Such assets or liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets or liabilities in a transaction (other than in a business combination) that affects neither the taxable net income nor the accounting net income.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable net income will be available to allow all or part of the asset to be recovered.

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

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

3 Significant accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current income tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current income tax assets and liabilities on a net basis.

Other taxes

Other taxes which include irrecoverable value added tax, sales tax and custom duties represent the amounts receivable or payable to local tax authorities in the countries where the Company operates and are included within net operating income.

4 Financial risk management

The Company's activities expose it to a variety of financial risks. The Company has in place risk management policies that seek to limit the adverse effects of these risks in the financial performance of the Company. The Board of Directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework. The Company is a member of the Subsea 7 S.A. group of companies ('the Group'), headed by Subsea 7 S.A. (Note 23). The Group has a central treasury function with an authorisation matrix agreed with the Chief Financial Officer. The responsibility for managing and monitoring the day-to-day financial risks is delegated to the central treasury function. The risk management policies are implemented by the central treasury function which receives regular reports from all the operating companies to enable prompt identification of financial risks so that appropriate action may be taken.

(a) Foreign exchange risk

The Company is exposed to foreign exchange risk arising on sales and purchases that are denominated in a currency other than the functional currency of the Company. As the Company's presentation currency is £, it is also subject to foreign exchange translation risk in respect of the results and underlying net assets of foreign operations.

Techniques in managing foreign exchange risk include, but are not limited to, foreign currency borrowing and investing and the use of currency derivative instruments. The central treasury department selectively manages significant exposures to potential foreign exchange losses considering current market conditions, future operating activities and the associated cost in relation to the perceived risk of loss. No currency derivative instruments are entered into by the Company or in the Company's name.

(b) Cash flow and fair value interest rate risk

The Company had interest rate risk arising from long-term borrowings. Borrowings at variable rates exposed the Company to cash flow interest rate risk and borrowings at fixed rates expose the Company to fair value interest rate risk.

As at 31 December 2012 the Company had no fixed rate borrowings.

The Company had access to variable rate borrowings in the form of a bank overdraft facility, at interest rates determined with reference to LIBOR at the time of drawdown.

The Company had no significant interest bearing assets other than cash and cash equivalents and amounts owed by fellow subsidiary undertakings of the Subsea 7 S.A. Group therefore the Company's income and operating cash flows were substantially independent of changes in market interest rates.

Cash and cash equivalents are invested for short maturity periods, generally less than one week, which mitigates the potential interest rate risk.

The Company monitors its exposure to interest rate risk as part of its overall monitoring of financial risk management, but has not entered into any interest rate derivatives to manage its cash flow and fair value interest rate risk.

(c) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents, primarily composed of deposits and

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

4 Financial risk management (continued)

investments in money market funds are maintained with a number of major financial institutions. The Company performs ongoing credit evaluations and generally does not require collateral from its customers.

(d) Liquidity risk

The Subsea 7 S.A. 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 Subsea 7 Treasury (UK) Limited.

Capital risk management

The objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure the Company may, amongst other things, adjust the amount of dividends paid to the shareholder, issue new shares, repurchase existing shares, or sell assets to reduce debt. There were no changes to the Company's approach to capital management in the year.

Capital for the Company is total equity and is detailed in the Company's Statement of Changes in Equity on page 8.

Fair value estimation

The carrying value of certain of the Company's financial instruments, including cash and cash equivalents, trade and other receivables and trade and other payables, approximates fair value because of their short maturities. The fair value of borrowings is determined based on parameters such as interest rates, specific country risk factors and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2012, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

	2012 £	2011 £
Financial assets:		
Cash and cash equivalents	751,874	362,888
<i>Loans and receivables:</i>		
Net trade receivables (Note 13)	86,643	-
Other receivables (Note 13)	4,966,792	1,092,702
Amounts due from group undertakings (Note 13)	23,472,171	19,761,647
Financial liabilities:		
<i>Financial liabilities held at amortised cost:</i>		
Net trade payables (Note 15)	1,220,766	82,357
Other payables (Note 15)	2,611,547	1,262,729
Amounts due to group undertakings (Note 15)	7,036,706	1,484,584

5 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies which are described in Note 3 'Significant accounting policies', management is required to make judgements, estimates and assumptions regarding the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that the Directors believe 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 in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

5 Critical accounting judgements and key sources of estimation uncertainty (continued)

Taxation

The Company is subject to taxation in numerous jurisdictions and significant judgement is required in calculating the tax provision. There are many 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.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, the difference will impact the tax charge in the period in which the outcome is determined. Full details of all judgements and other issues considered are set out in Notes 10 and 16.

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.

Share based payment transactions

In determining the fair value and associated cost of share-based payments and other employee benefit schemes, management uses its judgement in selecting an appropriate valuation technique and assumptions including future share price volatility, employee attrition and employee compensation adjustments. The final cost of each award will be determined upon vesting of the various schemes, at which point the appropriate adjustments will be made. Details of the schemes are provided in Note 21 'Share-based payments'.

6 Research and development costs

Research and development costs recognised as an expense in the Statement of Comprehensive Income during the financial year amounted to £1,840,725 (2011: £722,996).

7 Employee benefits and Directors' remuneration

Employee costs for the year

	2012 £	2011 £
Wages and salaries	122,215,134	74,372,535
Social security costs	13,846,435	7,594,960
Termination benefits	2,065,233	229,101
Pension costs – defined contribution schemes	7,394,448	4,520,587
Share based payments (Note 21)	2,664,211	1,921,862
	148,185,461	88,639,045

The average monthly number of persons (including Directors) employed by the Company during the year was:

	2012	2011
Directors	5	5
Administration	1,633	1,051
Production	39	27
	1,677	1,083

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

7 Employee benefits and Directors' remuneration (continued)

Directors' emoluments:

The Directors of the Company are also directors of fellow group subsidiaries. It is not considered practical to allocate the remuneration of the Directors across the entities for which they perform qualifying services. As such the details of the remuneration for those Directors employed by this entity have been disclosed below:

	2012 £	2011 £
Salaries and short-term employee benefits	2,739,275	1,365,953
Post employment benefits	97,498	50,955
Termination benefits	1,005,530	-
Share based payments	453,670	168,784
	4,295,973	1,585,692

	2012	2011
Number of Directors who are entitled to shares/share options/restricted shares in respect of qualifying services	7	4
Number of Directors accruing benefits under defined contribution schemes	6	5

In respect of the highest paid Director:

	2012 £	2011 £
Salaries and short-term employee benefits	1,123,196	275,658
Post employment benefits	24,578	16,200
Share based payments	174,756	81,327
	1,322,530	373,185

No share options were exercised by the highest paid Director in the current or preceding year.

8 Auditor's remuneration

During the year the Company obtained the following services from the Company's auditor at costs as detailed below.

	2012 £	2011 £
Audit services	4,900	5,000

9 Finance income and finance costs

	2012 £	2011 £
Finance income:		
Other interest	-	463
Interest receivable on bank deposits	149	74
Interest receivable on inter-company loans	350,677	513,298
Total finance income	350,826	513,835
Finance costs:		
Bank interest	(6)	-
Interest payable on inter-company loans	(2,247,856)	(719,870)
Total finance costs	(2,247,862)	(719,870)

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

10 Taxation

	2012 £	2011 £
Current tax:		
UK corporation tax charge for the year	1,622,807	305,661
Adjustments in respect of prior years	387,544	(197,472)
	2,010,351	108,189
Deferred tax:		
Charge/(Credit) for the year (Note 16)	1,828,105	(1,349,553)
	1,828,105	(1,349,553)
Total taxation charge/(credit)	3,838,456	(1,241,364)

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:

	2012 £	2011 £
Profit on ordinary activities before tax	3,007,258	912,764
Profit on ordinary activities multiplied by the standard rate of corporation tax for the Company of 24.50% (2011: 26.49%)	736,778	241,791
Income not taxable	-	551
Permanent differences	884,858	39,589
Adjustments in respect of prior periods	387,544	(197,472)
Deferred tax impact of share based payments	1,703,126	(1,379,461)
Deferred tax rate change	126,150	53,638
Total taxation charge/(credit)	3,838,456	(1,241,364)

11 Other intangible assets

	Software £
Cost	
At 1 January 2012	8,604,098
Additions at cost	6,423,484
At 31 December 2012	15,027,582
Accumulated depreciation	
At 1 January 2012	7,327,606
Charge for the year	1,935,830
At 31 December 2012	9,263,436
Net book amount at 31 December 2012	5,764,146

	Software £
Cost	
At 1 January 2011 and 31 December 2011	8,604,098
Accumulated depreciation	
At 1 January 2011	6,329,792
Charge for the year	997,814
At 31 December 2011	7,327,606
Net book amount at 31 December 2011	1,276,492

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

12 Property, plant and equipment

	IT infrastructure £	Fixtures and Fittings £	Total £
Cost			
At 1 January 2012	8,420,581	-	8,420,581
Additions at cost	3,290,381	256,544	3,546,925
At 31 December 2012	11,710,962	256,544	11,967,506
Accumulated depreciation			
At 1 January 2012	5,703,510	-	5,703,510
Charge for the year	1,847,312	75,265	1,922,577
Impairment	248,025	-	248,025
At 31 December 2012	7,798,847	75,265	7,874,112
Net book amount at 31 December 2012	3,912,115	181,279	4,093,394

Included in the table above are assets under construction of £2,302,560 (2011: £2,499,539).

	IT infrastructure £
Cost	
At 1 January 2011	7,248,067
Additions at cost	1,172,514
At 31 December 2011	8,420,581
Accumulated depreciation	
At 1 January 2011	5,226,992
Charge for the year	476,518
At 31 December 2011	5,703,510
Net book amount at 31 December 2011	2,717,071

13 Trade and other receivables

	2012 £	2011 £
Trade receivables	86,643	-
Amounts owed by parent and fellow subsidiary undertakings (Note 19)	23,472,171	19,761,647
Other receivables	4,966,792	1,092,702
	28,525,606	20,854,349

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.

14 Share capital

The Company's authorised share capital consists of 1,000 ordinary shares of £1 each. The Company's allotted, called up and fully paid share capital is as follows:

	2012 £	2011 £
1 ordinary share of £1 each	1	1

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

15 Trade and other payables

	2012 £	2011 £
Amounts owed to parent and fellow subsidiary undertakings (Note 19)	7,036,706	1,484,584
Trade payables	1,220,766	82,357
Accruals and deferred income	17,014,676	5,189,982
Taxation and social security	3,504,705	2,648,255
Other payables	2,611,547	1,262,729
	31,388,400	10,667,907

16 Deferred tax

The movements in deferred tax assets and liabilities during the year, prior to any offset of balances within the same jurisdiction, are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and the taxes relate to the same fiscal authority.

Deferred tax relates to the following:

Deferred tax assets	Depreciation in excess of capital allowances £	Share options £	Pension £	Total £
At 1 January 2012	571,547	2,630,276	104,639	3,306,462
Credited/(Charged) to Statement of Comprehensive Income	(884,997)	(984,918)	41,810	(1,828,105)
Transferred in from Subsea 7 M.S. Limited	3,555,904	580,000	-	4,135,904
Credited to Statement of Changes in Equity	-	(924,848)	-	(924,848)
At 31 December 2012	3,242,454	1,300,510	146,449	4,689,413

During the year the 2012 Finance Bill was enacted which would reduce the UK Corporation tax from 24% to 23% from 1 April 2013. Deferred tax balances have been recognised at this rate.

The UK Government announced on 20 March 2013 that the rate of Corporation tax will reduce to 21% from 1 April 2014 and to 20% from 1 April 2015. However, deferred tax has not been recognised at these rates as they have not been substantively enacted at the balance sheet date. The further reductions in the rate of Corporation tax are due to be enacted in the 2013 Finance Act.

17 Cash flows from operating activities

Reconciliation of total comprehensive income to net cash generated from operating activities:

	2012 £	2011 £
Total comprehensive (loss)/income for the year, net of tax	(831,198)	2,154,128
Adjustments for:		
Taxation	3,838,456	(1,241,364)
Depreciation and amortisation	3,858,407	1,474,332
Impairment of property, plant and equipment	248,025	-
Equity settled share based payment charge	2,449,492	1,921,862
Finance income	(350,826)	(513,835)
Finance expense	2,247,862	719,870
<i>Changes in working capital:</i>		
Increase in receivables	(7,320,580)	(2,165,556)
Increase/(decrease) in payables	6,906,247	(478,512)
Cash generated from operating activities	11,045,887	1,870,925

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

18 Commitments

	2012 £	2011 £
Contracts placed for future capital expenditure not provided for in the financial statements	-	73,579

19 Related party transactions

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year as well as the outstanding balances at each financial year end. Transactions were at arm's length and in the ordinary course of business.

	Sales to related parties £	Purchases from related parties £	Interest receivable from related parties £	Interest payable to related parties £	Amounts owed by related parties £	Amounts owed to related parties £
2012						
Parent and fellow subsidiary undertakings	227,101,839	17,149,042	350,677	2,247,856	23,472,171	7,036,706
2011						
Parent and fellow subsidiary undertakings	112,782,811	10,083,129	513,298	719,870	19,761,647	1,484,584
Joint venture entities	(363)	-	-	-	-	-

Parent and fellow subsidiary undertakings of the Subsea 7 S.A. Group

The Company provides and invoices for personnel and administrative services to other Group companies and joint ventures. Various Group companies provide personnel and administrative services to the Company and invoice the Company for these.

The Company pays and charges interest on amounts due to and from Group companies. Intercompany working capital balances as detailed in notes 13 and 15 attract or bear interest at 6%.

Joint venture entities of the Subsea 7 S.A. Group

Sales in relation to employee services and associated costs totalling £nil were made to joint venture companies during the year (2011: £363).

20 Dividends paid

The Directors paid a dividend of £8.3 million (£8.3 million per share), through intercompany settlement, for the year ended 31 December 2012 (2011: £nil). The dividend has been accounted for in equity as an appropriation of retained earnings.

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

21 Share based payments

The Subsea 7 S.A. Group (the "Group") operates several share-based payment schemes, both equity-settled and cash-settled, in which employees of the Company participate. The following table summarises the compensation expense recognised in the Statement of Comprehensive Income during the period:

For the period	2012	2011
Expense arising from equity-settled share-based payment transactions:		
2003 Plan	44,200	–
2009 Long-term Incentive Plan	1,672,830	–
Subsea 7 Inc. restricted stock award plan	732,462	1,541,712
Subsea 7 Inc. share option plans	–	356,557
Subsea 7 Inc. employee share purchase plans	–	23,593
Expense arising from cash-settled share-based payment transactions:		
2010 Executive Deferred Incentive Scheme	(22,202)	–
2010 Long-term Incentive Plan – cash plan	105,890	–
Special Incentive Plan 2012	131,031	–
Total	2,664,211	1,921,862

Equity-settled schemes

2003 Plan

The Group operated a share option plan which was approved in April 2003 ('the 2003 Plan'). This plan included an additional option plan for key Directors and 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 Group's Board of Directors administers these plans. Options were awarded at the discretion of the Group's 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 at 31 December 2012. The cost of these non-performance share options was recognised using the graded vesting attribution method. Share option exercises are satisfied by reissuing treasury shares. Furthermore, options are generally forfeited if the option holder leaves the Group under any circumstances other than due to the option holder's death, disability or retirement before his or her options are exercised.

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

2009 Long-term Incentive Plan

The 2009 Long-term Incentive Plan ('2009 LTIP') was approved by the Group's shareholders at the Extraordinary General Meeting on 17 December 2009. The 2009 LTIP has a five-year term with awards being made annually. The aggregate number of shares subject to all awards which may be granted in any calendar year is limited to 0.5% of issued and outstanding share capital of Subsea 7 S.A. on 1 January of each such calendar year.

The 2009 LTIP is an essential component of the Group reward strategy, and was designed to place the Group on a par with competitors in terms of recruitment and retention abilities. The 2009 LTIP provides for share awards, which are earned after three years, based on certain performance conditions, and vest after at least three years.

Performance conditions are based on relative Total Shareholder Return ('TSR') against a specified comparator group of companies and are determined over a three-year period. The 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 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. In addition, individual award caps are in place. No senior executive or other employee may be granted shares under the 2009 LTIP in a single calendar year that have an aggregate fair market value in excess of 150%, in the case of senior executives, or 100%, in the case of other employees, of their annual base salary as of the first day of the year of award. Additionally, a holding requirement for senior executives applies. Senior executives must hold 50% of all awards

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

21 Share based payments (continued)

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.

During 2012, awards of 586,500 shares were made under the terms of the 2009 LTIP. In conjunction with this award 550,600 shares were transferred to an Employee Benefit Trust at the closing share price on Oslo Børs on 10 September 2012.

The IFRS 2 'Share-based payments' fair value of each performance share granted under the 2009 LTIP is estimated as of the grant date using a Monte Carlo pricing model with weighted average assumptions as follows:

For the period	2012	2011
Weighted average fair value at grant date (in £)	7.00	7.43
Weighted average share price (in £)	14.32	14.29
Expected volatility	39%	41%
Expected life	5 years	5 years
Risk free rate	1.3%	1.8%

The expected life represents the maximum vesting period. The expected volatility over the expected life is estimated from the ultimate parent company's historical volatility. For the 2012 award the expected dividend took into account the expected dividends over the three-year vesting period assuming no growth over the estimated dividend yield of 2.6% (2011: 0.0%).

Subsea 7 Inc. restricted stock award plan

Certain employees of the Company were awarded, prior to the Combination, restricted shares in Subsea 7 Inc. When Subsea 7 S.A. acquired Subsea 7 Inc. these awards were replaced by Subsea 7 S.A. with restricted shares in Subsea 7 S.A., at the exchange ratio 1.065 replacement restricted share for each previously awarded restricted share. The shares had a fair value of £6.45 per share equivalent to the market price on the grant date. The modification had a fair value of £0.12 per share.

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

Awards will not attract any dividends or dividend equivalents prior to the delivery of shares. Participants will not have any voting rights in respect of the vested number of shares awarded prior to the delivery of the shares. All shares allotted under the share plan carry the same rights as any other issued common shares in the Company.

At 31 December 2012, 307,559 restricted shares remain unvested (2011: 1,220,934).

Subsea 7 Inc. share option plans

As part of the Combination, the Group replaced the share options previously issued by Subsea 7 Inc. All such share options have vested as at 31 December 2012.

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

21 Share based payments (continued)

Share options

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

For the period	Number of options 2012	Weighted average exercise price in £ 2012	Number of options 2011	Weighted average exercise price in £ 2011)
Outstanding at period beginning	88,926	14.19	133,800	12.39
Uplift on combination with Subsea 7 S.A.	–	–	8,695	–
Transfer in from other Group company	696,479	11.23	–	–
Reinstatement of lapsed options	68,398	10.72	–	–
Exercised	(210,019)	9.98	(48,244)	6.22
Forfeit	(17,693)	11.85	(5,325)	24.28
Outstanding at period end	626,091	11.25	88,926	14.19
Exercisable at the end of the period	626,091	10.17	88,926	14.19

The weighted average exercise market price at exercise date of options exercised during the period was £15.22 (2011: £11.98).

The following table summarises information regarding share options outstanding as at 31 December 2012:

Common shares (range of exercise prices)	Options outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price(in £)
£10.52 – £13.92	488,865	4.64	13.09
£6.19 – £10.51	66,187	2.75	5.95
£1.87 – £6.18	62,289	2.03	3.93
£0.74 – £1.86	8,750	0.20	0.73
Total	626,091	4.12	11.25

Cash-settled schemes

2009 and 2010 Executive Deferred Incentive Schemes

These cash-settled schemes are closed to new awards. The 2009 Executive Deferred Incentive Scheme vested during the period and the 2010 Executive Deferred Incentive Scheme will vest during 2013, subject to service and performance conditions.

2010 Long-term Incentive Plan – cash plan

During 2010 the Group adopted the Long Term Incentive Plan – cash plan for selected employees as a cash bonus. The cash settlement is based on the average share price over a specified three month period and a nominal allocated number of shares to each employee. The cash bonus is capped at either 6 or 12 months of the employees' salary. This cash-settled scheme is closed to new awards. All existing awards will vest during 2013, subject to service conditions.

Special Incentive Plan 2009

The Special Incentive Plan 2009 ('SIP 2009') is a cash-settled incentive plan designed to provide awards to selected executives and key employees. Awards under the SIP 2009 were in the form of a cash bonus, paid in April 2012, of between zero and twelve months' base salary, dependent on the Subsea 7 S.A. average share price as quoted on Oslo Børs between 1 January 2012 and 31 March 2012. No other performance criteria apply. All amounts which vested were paid during the period.

Subsea 7 (UK Service Company) Limited

Notes to the Financial Statements

21 Share based payments (continued)

Special Incentive Plan 2012

In September 2012, the Group put in place the Special Incentive Plan 2012 ('SIP 2012'), a cash-settled incentive plan designed to provide awards to selected employees. Awards under the SIP 2012 are in the form of a cash bonus payable in September 2014. The plan guarantees to a pay a minimum of 25% of base salary. As well as the guaranteed incentive payment, employees could also receive a further payment of up to 25% of base salary, resulting in an overall maximum incentive payment of 50% of base salary. The Subsea 7 S.A. share price must increase from £14.77 to £19.15 by the end of the performance period in order for maximum incentive opportunity to be realised. If the Subsea 7 S.A. share price falls within this range, the amount of the additional incentive opportunity will be calculated on a straight-line basis. The Subsea 7 S.A. share price at the end of the performance period will be based on the average share price quoted on Oslo Børs between 1 June 2014 and 31 August 2014. There are no other performance conditions.

Recognised cash-settled share-based payment liability

The carrying amount of the liability relating to the cash-settled share-based payments as at 31 December 2012 was £723,824 (2011: £nil).

22 Post balance sheet events

Change in UK Corporation tax rate

During the year the 2012 Finance Bill was enacted which would reduce the UK Corporation tax from 24% to 23% from 1 April 2013. Deferred tax balances have been recognised at this rate.

The UK Government announced on 20 March 2013 that the rate of Corporation tax will reduce to 21% from 1 April 2014 and to 20% from 1 April 2015. However, deferred tax has not been recognised at these rates as they have not been substantively enacted at the balance sheet date. The further reductions in the rate of Corporation tax are due to be enacted in the 2013 Finance Act.

23 Ultimate parent and ultimate controlling party

The Company's immediate parent undertaking is Subsea 7 Senior Holdings (UK) Limited, a Company registered in England

The Company's ultimate parent undertaking and controlling party at 31 December 2012 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 consolidated financial statements of Subsea 7 S.A. can be obtained from the address below or at www.subsea7.com.

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