

ANNUAL REPORT 2018



Mission

Our mission is to implement challenging, safe and innovative projects, leveraging on the competence of our people and on the solidity, multiculturalism and integrity of our organisational model. With the ability to face and overcome the challenges posed by the evolution of the global scenarios, we must seize the opportunities to create economic and social value for all our stakeholders.

Our values

Innovation; health, safety and environment; multiculturalism; passion; integrity.

Disclaimer

By their nature, forward-looking statements are subject to risk and uncertainty since they are dependent upon circumstances which should or are considered likely to occur in the future and are outside of the Company's control. These include, but are not limited to: monetary exchange and interest rate fluctuations, commodity price volatility, credit and liquidity risks, HSE risks, the levels of capital expenditure in the oil and gas industry and other sectors, political instability in areas where the Group operates, actions by competitors, success of commercial transactions, risks associated with the execution of projects (including ongoing investment projects), in addition to changes in stakeholders' expectations and other changes affecting business conditions.

Actual results could therefore differ materially from the forward-looking statements.

The financial reports contain in-depth analyses of some of the aforementioned risks.

Forward-looking statements are to be considered in the context of the date of their release. Saipem SpA is under no obligation to review, update or correct them subsequently, except where this is a mandatory requirement of the applicable legislation.

Countries in which Saipem operates

EUROPE

Albania, Austria, Bulgaria, Croatia, Cyprus, Denmark, France, Germany, Greece, Italy, Luxembourg, Netherlands, Malta, Norway, Poland, Portugal, Romania, Serbia, Spain, Sweden, Switzerland, Turkey, United Kingdom

AMERICAS

Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Ecuador, Guyana, Mexico, Peru, United States, Venezuela

CIS

Azerbaijan, Georgia, Kazakhstan, Russia, Turkmenistan

AFRICA

Algeria, Angola, Congo, Egypt, Gabon, Ghana, Libya, Morocco, Mozambique, Namibia, Nigeria, South Africa, Tunisia, Uganda

MIDDLE EAST

Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

FAR EAST AND OCEANIA

Australia, China, India, Indonesia, Japan, Malaysia, Pakistan, Singapore, South Korea, Taiwan, Thailand, Vietnam

Board of Directors and auditors of Saipem SpA

BOARD OF DIRECTORS¹

Chairman
Francesco Caio

Chief Executive Officer (CEO)
Stefano Cao

Directors

Maria Elena Cappello, Claudia Carloni,
Paolo Fumagalli, Federico Ferro-Luzzi, Ines Mazzilli,
Leone Pattofatto³, Pierfrancesco Latini⁴, Paul Schapira

BOARD OF STATUTORY AUDITORS²

Chairman
Mario Busso

Statutory Auditors
Giulia De Martino
Riccardo Perotta

Alternate Statutory Auditors
Francesca Michela Maurelli
Maria Francesca Talamonti

(1) Appointed by the Shareholders' Meeting on May 3, 2018, for 2018, 2019, and 2020 and in any case up to the date of the Shareholders' Meeting to approve the financial statements on December 31, 2020.

(2) Appointed by the Shareholders' Meeting on April 28, 2017 for a three-year period and in any case up to the date of the Shareholders' Meeting to approve the financial statements on December 31, 2019.

(3) Resigned on October 4, 2018.

(4) Appointed as Director by the Board of Directors on December 5, 2018.

Independent Auditors

EY SpA

ANNUAL REPORT

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Shareholders' Meeting of April 30, 2019

Notice of the Shareholders' Meeting was published on the Company website and an excerpt was published in the daily newspaper *Il Sole 24 Ore* on March 29, 2019.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

the transition to a new and more sustainable energy scenario is finally accelerating. After a long period of stagnation, infrastructure investments are gradually starting up again with a clear orientation towards sources and technologies whose distinctive character is based in greater environmental sustainability. Saipem is watching this evolution with prudent but motivated optimism: thanks to the process of transformation and relaunch begun in recent years, your company has further strengthened its base of skills, assets and technologies to meet the demand for sustainable energy.

Government policies, new technologies and consumption trends will have effects on production periods and methods and on energy use, so that it is difficult to predict. The changes taking place in the energy industry do require flexibility and a strong capacity for adaptation in a scenario where companies will not be able to avoid innovating and renewing themselves in the face of new challenges. In line with previous years, in order to face drastically changed market conditions, in 2018 our industry was affected by cost reduction programmes, organisational rationalisation, restructuring and extraordinary operations, aimed at operational efficiency and strategic diversification in order to face changing market conditions.

In 2018, your Company completed the process of organisational change, approved in July 2018 by the Board of Directors and pillar of the strategic relaunch, which is based on the re-focusing of the business portfolio, the de-risking and diversification of activities, debt reduction and financial discipline, costs and processes optimisation and an increasingly pronounced focus on technology and innovation.

The new organisation, characterised by the five Divisions, entails their full autonomy and provides the flexibility and operating levers needed to better adapt to the characteristics of the markets in which we operate, keeping, a unique and cross divisional view of the Company, at a Corporate level.

Specifically:

- the Offshore Engineering & Construction business remains our 'core business', where we consolidate and strengthen our leadership position through targeted investments and cooperation aimed at improving the integrated services offering,

also in diversified sectors such as maintenance, modifications and operations, decommissioning and renewables;

- the Onshore Engineering & Construction business will continue to focus on completing the turnaround aimed at increasing profitability, also through measures such as de-risking on-going projects and repositioning the portfolio, with an ever-increasing focus on the energy transition;
- for the Onshore and Offshore Drilling businesses, efforts will continue to optimise operations and to expand the geographic and widen the client base. Possible strategic options are being assessed with a view to maximising value.

The target of the new model is also to consolidate the Company's positioning to evolve in a manner consistent with our vision as a 'Global Solution Provider'. A reliable integrated and, at the same time, diversified partner able to develop through its Divisions, solutions and innovations that create value. A partner that is also able to support clients in the ongoing energy transition and throughout the whole life cycle of a project, from the development phase to the decommissioning phase.

In 2018, the average Brent price stood at US\$70 a barrel, substantially up from US\$53 a barrel reached in 2017. However, during the year, oil prices were still characterised by extreme volatility. It is important to remember that in November 2018 Brent and WTI respectively dropped below US\$60 and US\$50 a barrel, losing over the period of one month roughly more than 30% of its value.

Such extreme volatility, attributable not only to the supply and demand dynamics, but also to the persistence of geopolitical instability.

In recent years, oil companies have reacted to the volatility and fall of oil prices by, on the one hand, drastically reducing conventional upstream investments and, on the other hand, by implementing wide reaching restructuring and cost reductions. They have also increased investments in the natural gas industry and the downstream sector, in addition to a strong focus on US shale production.

Despite market conditions which are still difficult and complex, we have been awarded numerous new contracts across all the businesses, in particular in Onshore and Offshore Engineering & Construction. The value of the new contracts, equal to

€8,753 million, is up by 18.3% compared to 2017. This is thanks to significant acquisitions of new projects mainly in the Middle East, the Mediterranean and the Far East. The order backlog as at the end of 2018 amounts to €12,619 million. This value does not include contracts to be executed in joint ventures amounting to an additional €1,844 million.

Furthermore, the trend of debt reduction continued: the net financial position at the end of 2018 amounted to €1,159 million compared to €1,296 million at the end of 2017. This reduction was achieved despite investment in the new vessel, the Saipem Constellation.

The year's key figures were:

- revenues: €8,526 million;
- adjusted EBITDA: €1,002 million;
- EBITDA: €848 million;
- adjusted operating result (EBIT): €534 million;
- operating result (EBIT): €37 million;
- adjusted net result: €25 million;
- net result: loss of €472 million;
- capital expenditure: €485 million;
- net debt at December 31, 2018: €1,159 million;
- new contracts: €8,753 million;
- backlog: €12,619 million, which does not include the residual backlog of joint venture contracts which is equal to €1,844 million.

The special items relating to the reported result are due to:

- write-downs of tangible and intangible fixed assets deriving from the impairment test;
- write-down of current assets and provisions for costs in relation to some pending judgements on projects already completed, deriving from the activity of periodic legal monitoring of the evolution of the overall dispute;
- restructuring charges.

Capital expenditure during 2018 amounted to €485 million (€262 million in 2017), including the acquisition of the vessel, the Saipem Constellation (for approximately €220 million) mainly for maintenance and upgrading.

In 2018, we continued the essential path to ensure the health and safety of our people, essence of our method of operating. In particular, we are satisfied with our safety performance, which shows constant improvement year after year.

Statistics show the LTIFR-Lost Time Injury Frequency Rate at a value of 0.13, recording a further decrease of about 7% compared to 2017. However, sadly four fatal accidents occurred in which involved workers from four subcontractors' working on projects in Turkey, Kazakhstan and Saudi Arabia. In-depth investigations were carried out in line with our procedures and international best practices. The causes were identified and relevant improvement measures have been identified and implemented.

Saipem has always had a deep-rooted vocation to sustainability, which is firstly based on the value we give to our people and their competences and also on the ability to attract new talent, on the development and employment of local resources and on respect and promotion of human rights, both for our employees and for the whole supply chain.

This commitment was further strengthened internationally by joining the United Nations Global Compact and improving the appreciation of international financial stakeholders, who confirmed Saipem's inclusion in the Dow Jones Sustainability and FTSE4Good indices.

In 2018, we achieved, and we were one of the first Italian companies to do so, the international certificate ISO 37001 'Anti-corruption management systems', a tangible result of our commitment and a reason to stimulate constant progress in this area.

Finally, we implemented the recommendations of the task force on the disclosure of financial impacts related to climate change by publishing 'Tackling Climate Change', a document that provides information to our stakeholders on the measures and instruments used to manage the business in the long term.

Technology will continue, in concert with the ability to innovate, to play a decisive role in our business, we will focus both on the evolutionary development of the conventional technology of our projects, and on the development of new and more disruptive technological and digital solutions, continuing to invest in the development of innovative solutions and key technologies, from engineering to underwater robotics, from carbon capture to renewables.

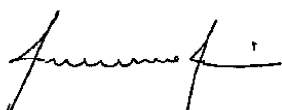
High volatility in the price of oil and the still limited level of new investments by oil companies will probably also characterise 2019. Energy transition and the de-carbonization requirements will open new business opportunities in line with Saipem's new strategy.

The backlog at the end of 2018, combined with forecasts of commercial offers in progress, allow forecasts of around €9 billion for the financial year 2019, with a margin in terms of adjusted EBITDA of over 10%. capital expenditure is expected to be approximately €500 million, while the net debt is expected to be around €1 billion at the end of 2019.

March 11, 2019

On behalf of the Board of Directors

The Chairman
Francesco Caio

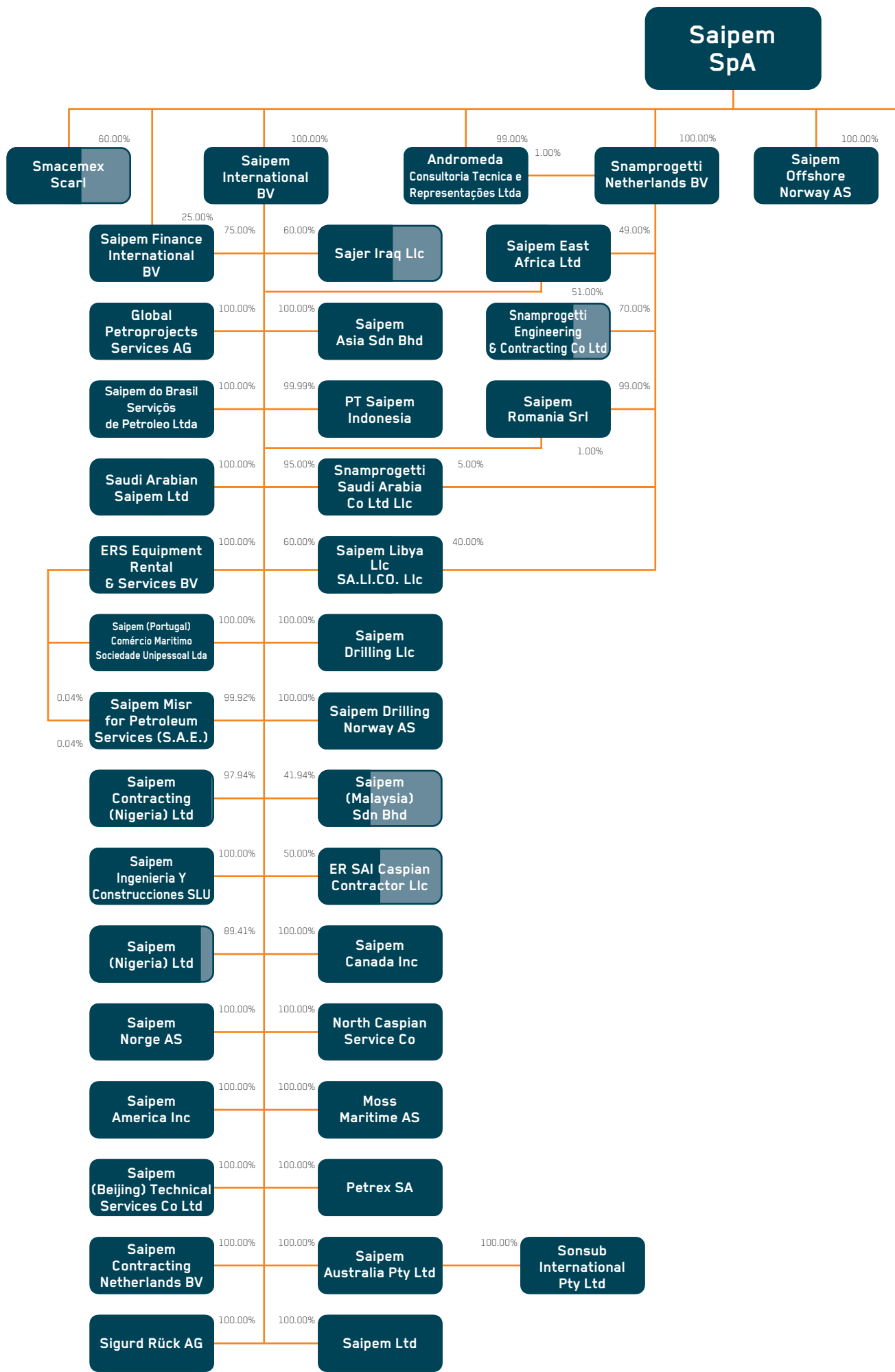


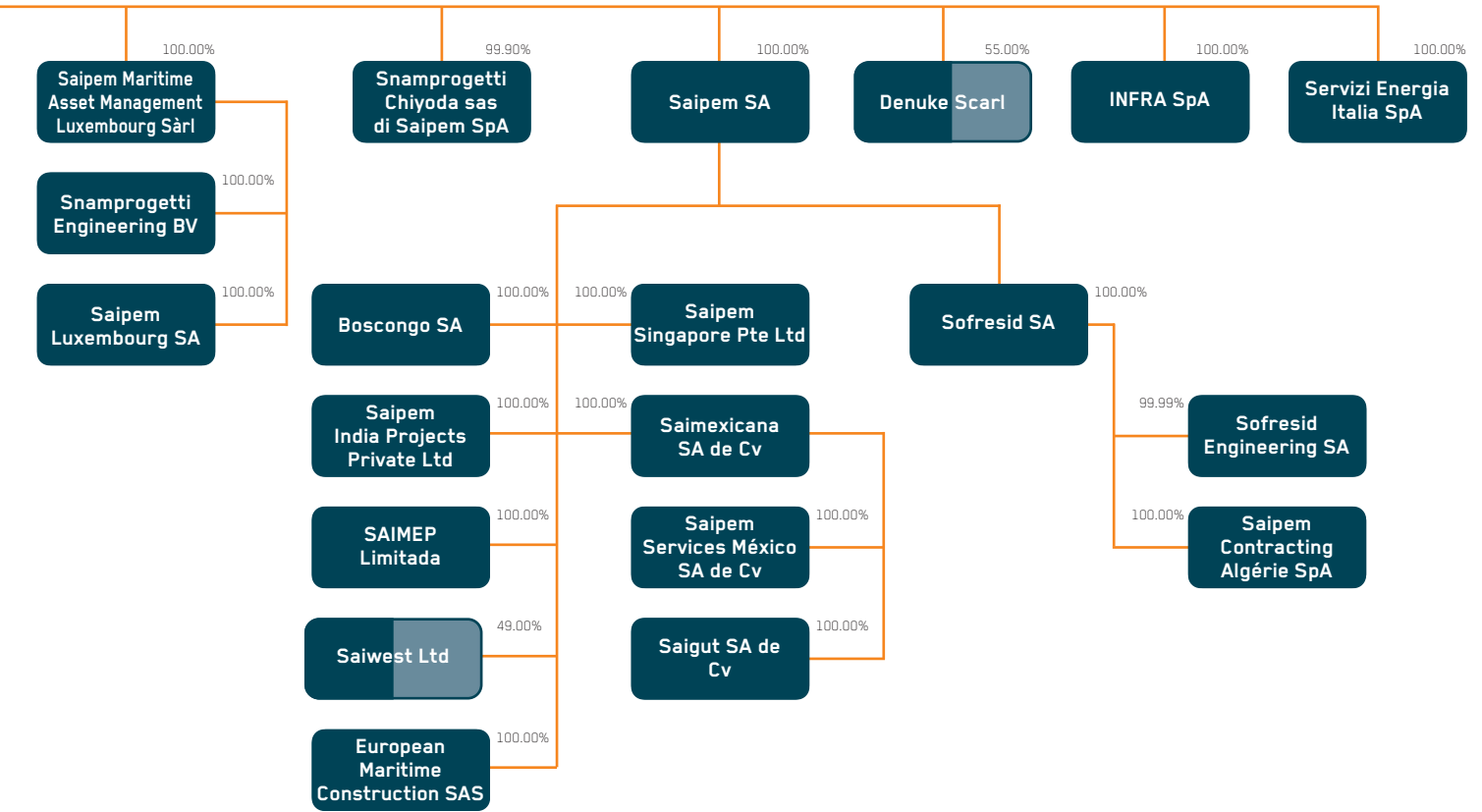
The Chief Executive Officer (CEO)
Stefano Cao



SHAREHOLDER STRUCTURE OF THE SAIPEM GROUP

(subsidiary companies)





The chart only shows subsidiaries

Directors' Report

SAIPEM SPA SHARE PERFORMANCE

In 2018, the price of ordinary Saipem shares on the Italian Stock Exchange fell by 15%. At the same time, we note that the American industry index, OSX, which includes service companies in the oil industry, decreased by 47%, while the FTSE MIB index, the largest Italian securities list, recorded a decrease of 16%.

At the beginning of 2018, the Saipem share continued the upward trend which began at the end of 2017 in a generally positive climate for the energy industry. This was helped by the agreement between OPEC and Russia regarding the extension of oil production cuts. From the end of January, caution prevailed on the main international stock markets due to uncertainties in the global economy and the US political scene. Oil prices fell and the Saipem share was dragged down, along with those of the entire oil services sector. However, the price of crude oil proved to be resilient and from the middle of February it began to rise again. The Saipem share remained volatile for a few weeks, due to the low number of new contracts and a coverage of the expected revenues for the following year which were considered insufficient. The share dropped to its lowest point of the year at €3.10 on April 9, after which it continued to rise, albeit slowly when compared to the sector. In May, following the quarterly results and thanks to the publication of some optimistic reports by leading financial

analysts on the sector and on Saipem, there was a sudden acceleration of the uptrend, with significant purchase volumes.

The share, albeit influenced by a certain volatility, continued to increase throughout the summer and up to the beginning of October, driven by the acquisition of three significant contracts in June and the announcement of the positive results of the first half, despite the not brilliant performance of the Milan Stock Exchange caused by the uncertainties of the Italian political scenario after the elections.

The share reached the year high on October 1 at a price of €5.43, driven by a new upward acceleration in the price of oil, favoured by factors such as the renewed convergence among the OPEC countries, sanctions towards Iran and the instability of Libya. Starting in October, the confidence on international markets gradually deteriorated and the price of oil was subjected to strong pressure due to the fear that geopolitical factors (tensions between the US, China and Russia) would slow down the global economy, reducing the need for energy and triggering imbalances in the oil market. The exit of Qatar from OPEC and the resilience of American shale oil, fuelled fears of overproduction and the price of crude oil reversed the trend with a rapid decline that dragged energy company share prices down just as quickly. The Saipem

Key Stock Exchange indices and figures		Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018
Share capital	(€)	441,410,900	441,410,900	2,191,384,693	2,191,384,693	2,191,384,693
Number of ordinary shares		441,301,574	441,301,574	10,109,668,270	1,010,966,841	1,010,966,841
Number of savings shares		109,326	109,326	106,126	10,598	10,598
Market capitalisation	(€ million)	3,872	3,324	5,419	3,872	3,286
Gross unitary dividend:						
- ordinary shares	(€)	-	-	-	-	-
- savings shares	(€)	0.05	-	-	-	-
Price/earning ratio per share: ⁽¹⁾						
- ordinary shares	(€)	..	..	..	..	..
- savings shares	(€)	..	..	..	..	..
Price/cash flow ratio per share: ⁽¹⁾						
- ordinary shares	(€)	4.18	21.58	16.88	9.49	9.69
- savings shares	(€)	8.59	27.23	170.39	99.12	119.29
Adjusted price/earning ratio per share:						
- ordinary shares	(€)	21.51	..	23.98	84.17	131.43
- savings shares	(€)	44.26	..	242.01	879.11	1,617.56
Price/adjusted cash flow ratio per share:						
- ordinary shares	(€)	4.18	21.58	4.28	4.02	3.28
- savings shares	(€)	8.59	27.23	43.20	41.95	40.36

(1) Figures pertain to the consolidated financial statements.

share fell to €4.52 on October 23, with a return on speculative investments and short positions.

Thanks to the announcement of new significant contracts and quarterly results in line with the annual guidance the share price remained at around €4.60 at the beginning of November, however, due to the downward trend of oil prices and the Oil & Gas sector, it dropped to €3.25 per share on December 28, last listing of the year, close to the annual minimum of early April.

At the beginning of 2019 there was a rebound in the share price, supported by the reversal in the trend of oil prices and by the confidence created by the acquisition of additional significant contracts by Saipem at the end of 2018, which brought the share to €4 at the end of January.

Saipem's market capitalisation at the end of the year was approximately €3.2 billion.

In terms of share liquidity, shares traded during the year totalled approximately 2.8 billion (2.4 billion registered in the previous year). The average number of shares traded daily for the period totalled 11.2 million, an increase of 20% compared to the 9.3 million in the same period of the previous year.

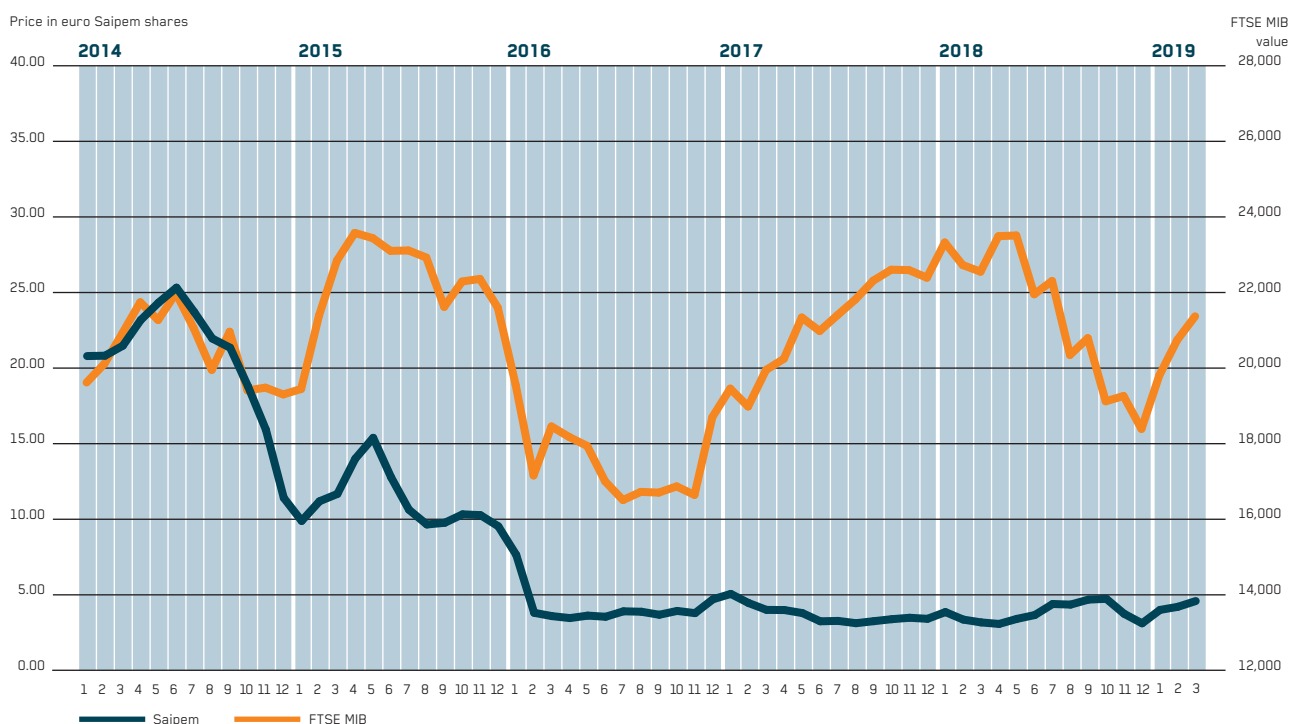
The value of shares traded amounted to €11.2 billion, compare to the €9.1 billion, recorded in 2017.

As regards savings shares, which are convertible at par with ordinary shares, at the end of December 2018 there were 10,598. Their value, due to scarce liquidity, registered slight changes during the year, reaching a price of €40.00 at the beginning and end of the period.

Listings on the Milan Stock Exchange	(€)	2014	2015	2016	2017	2018
Ordinary shares:						
- maximum		26.29	16.06	9.17	5.65	5.43
- minimum		10.46	8.94	3.02	2.96	3.10
- average		20.88	11.33	4.23	3.83	3.98
- year end		11.05	9.47	5.36	3.83	3.25
Savings shares:						
- maximum		128.74	110.71	62.00	60.00	41.80
- minimum		99.49	58.27	39.00	40.00	40.00
- average		113.96	96.28	57.17	46.13	40.27
- year end		110.71	58.27	54.10	40.00	40.00

The table values have been restated following the reverse stock split and the share capital increase.

Saipem and FTSE MIB - Average monthly prices January 2014-March 2019



OPERATING REVIEW

Organisational structure

In July 2018, the Board of Directors approved a new strategic orientation for the Company and the organisational model.

In particular:

- the Offshore Engineering & Construction business was identified as the 'core' business with the objective of maintain and re-enforcing the leadership position, even through the use of targeted investments;
- the Onshore Engineering & Construction business is focused on completing turnaround, aimed at recovering profitability, even through a repositioning of the portfolio;
- for both Onshore and Offshore Drilling, efforts toward increasing efficiency continued and strategic options were assessed with the goal of maximising value of the individual businesses.

In line with the above, organisational change was approved in July 2018 aimed at completing the process of divisionalisation which began in 2017 and which gave each Division full autonomy particularly regarding sales, project execution, technology and Research and Development, business

strategies, partnerships, etc. This process ended in December.

Following the adoption of the new strategic orientation and the change in the organisational model, the impairment test procedure of the Group Cash Generating Unit was also updated.

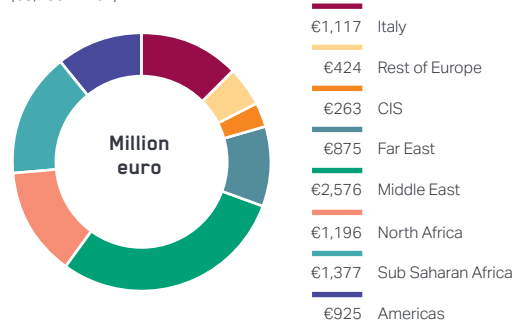
Market conditions

In 2018, the world economy grew by around 3.7% on an annual basis, in line with the growth rate recorded in 2017. Signs of growth were recorded both in emerging markets, such as India and China, as well as in the Middle East. In the United States, pro-cyclical tax policies and a strong internal demand supported economic growth of close to 3%, while in the Euro Zone growth stood at around 2%, down compared to the previous year.

In 2018, the average price of oil was close to \$70/barrel, a substantial increase compared to the \$53/barrel reached in 2017. During the first nine months of the year recovery of prices was supported by various factors, among which prolonged global geopolitical instability, specifically tensions between the United States and Iran, the war in Syria and the drop in production in some countries such as Venezuela. After reaching a high of \$86/barrel in the month of October, the price dropped to below beginning of the year prices to approximately \$55/barrel. This decrease, which can be attributed to the persistence of an excess supply of hydrocarbons on the market, was curbed towards the end of the year thanks to the production cuts decided in 2019 by the Vienna alliance between OPEC and non-OPEC countries (specifically Russia and Saudi Arabia).

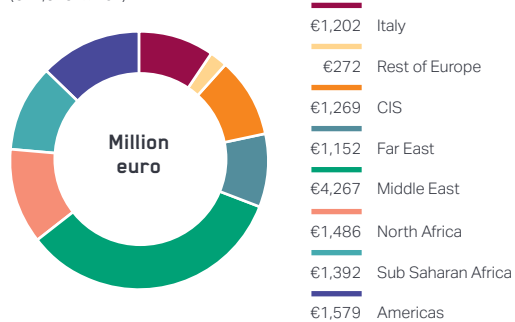
NEW CONTRACTS BY GEOGRAPHIC AREA

(€8,753 million)



ORDER BACKLOG BY GEOGRAPHIC AREA

(€12,619 million)



With regard to investments in exploration and production of hydrocarbons, after the minimum reached in 2016, there were two consecutive years in slight recovery. Although this growth, already visible in 2017, was mainly driven by the North American drilling market and therefore linked to non-conventional developments, in 2018 there were improvements in investment volumes also in international markets and in particular in Asia-Pacific, Africa and the Middle East. After a period of delay in project awards and cancellations of higher risk initiatives, there was an increase in final investment

decisions by oil companies compared to volumes reached in 2017.

Following a long period of market decline started in the second half of 2014, the main companies in the sector had to adapt to an industrial context characterised by lower volumes, promoting a strategy of cost reduction and downsizing. We have seen, in several cases, restructuring programmes and mergers and incorporation were carried out in order to remain as competitive as possible in the market, strengthening the financial structure and diversifying traditional

businesses, even those outside of the Oil & Gas industry.

New contracts and backlog

New contracts awarded to the Saipem Group in 2018 amounted to €8,753 million (€7,399 million in 2017).

48% of all contracts awarded were in the Offshore Engineering & Construction sector, 46% in the Onshore Engineering & Construction sector, 3% in the Offshore

Saipem Group - New contracts awarded during the year ended December 31						
	(€ million)		2017		2018	
	Amount	%	Amount	%	Amount	%
Saipem SpA	1,947	26	3,182	36		
Group companies	5,452	74	5,571	64		
Total	7,399	100	8,753	100		
Offshore Engineering & Construction	3,404	46	4,189	48		
Onshore Engineering & Construction	3,566	48	4,085	46		
Offshore Drilling	303	4	234	3		
Onshore Drilling	126	2	245	3		
Total	7,399	100	8,753	100		
Italy	57	1	1,117	13		
Outside Italy	7,342	99	7,636	87		
Total	7,399	100	8,753	100		
Eni Group	1,040	14	557	6		
Third parties	6,359	86	8,196	94		
Total	7,399	100	8,753	100		

Saipem Group - Backlog as at December 31						
	(€ million)		2017 ^(a)		2018	
	Amount	%	Amount	%	Amount	%
Saipem SpA	3,385	27	4,877	39		
Group companies	9,007	73	7,742	61		
Total	12,392	100	12,619	100		
Offshore Engineering & Construction	4,644	38	4,981	39		
Onshore Engineering & Construction	5,946	47	6,323	50		
Offshore Drilling	947	8	716	6		
Onshore Drilling	855	7	599	5		
Total	12,392	100	12,619	100		
Italy	444	4	1,202	10		
Outside Italy	11,948	96	11,417	90		
Total	12,392	100	12,619	100		
Eni Group	702	6	488	4		
Third parties	11,690	94	12,131	96		
Total	12,392	100	12,619	100		

(a) Restated due to the application of IFRS 15.

Drilling sector and 3% in the Onshore Drilling sector.

New contracts to be carried out abroad made up 87%. Contracts awarded by Eni Group companies were 6% of the overall figure.

Orders awarded to the parent company Saipem SpA amounted to 36% of the overall total.

The residual backlog of orders at December 31 amounted to €12,619 million (€12,392 million at December 31, 2017), which does not include the residual backlog of joint venture contracts which is equal to €1,844 million.

The €29 million increase in the backlog from €12,363 million at December 31, 2017 is due to the application of the accounting standard IFRS 15, specifically: €16 million are related to contracts in the Offshore Drilling sector, €8 million to contracts in the Onshore Engineering & Construction sector and €5 million to contracts in the Onshore Drilling sector.

The breakdown of the backlog by sector is as follows: 39% in the Offshore Engineering & Construction sector, 50% in the Onshore Engineering & Construction sector, 6% in Offshore Drilling and 5% in Onshore Drilling. 90% of orders were on behalf of overseas clients, while orders from Eni Group companies represented 4% of the overall

backlog. The parent company Saipem SpA accounted for 39% of the total order backlog.

Capital expenditure

Capital expenditure in 2018 amounted to €485 million (€262 million in 2017) and mainly related to:

- €345 million in the Offshore Engineering & Construction sector: purchase of the vessel the Saipem Constellation and upgrading of the existing asset base;
- €28 million in the Onshore Engineering & Construction sector: purchase and maintenance of equipment;
- €66 million in Offshore Drilling: class reinstatement works on the jack-up Perro Negro 7 and upgrading of the drillship Saipem 12000 for the purchase of the second BOP in addition to maintenance and upgrading on other vessels;
- €46 million for Onshore Drilling: upgrading of rigs for operations in Kazakhstan and South America, as well as the upgrading and maintaining of other assets.

The following table provides a breakdown of capital expenditure in 2018:

Capital expenditure	(€ million)	2017	2018
Saipem SpA		57	58
Other Group companies		205	426
Total		262	485
Offshore Engineering & Construction		114	345
Onshore Engineering & Construction		8	28
Offshore Drilling		78	66
Onshore Drilling		62	46
Total		262	485

Details of capital expenditure for the individual business units are provided in the following pages.

OFFSHORE ENGINEERING & CONSTRUCTION

General overview

The Saipem Offshore Engineering & Construction Division is endowed with world class engineering and project management expertise and a strong technologically advanced and highly-versatile fleet. These distinctive skills and competencies, together with a strong local presence in strategic markets through manufacturing yards in Nigeria, Angola, Brazil, Saudi Arabia and Indonesia, ensure an industrial model that is particularly suitable for EPCI projects across the energy industry.

The latest addition to our fleet, the rigid reel-lay and subsea development vessel Saipem Constellation, complements Saipem capabilities in the SURF market and in particular the growing subsea tieback market. With its DP3 system, the Ice Class notation, the multilayering capabilities, the 3,000 tonne crane, the Saipem Constellation represents a unique 'one-stop-shop' vessel to execute complex deep-water projects in a safe and efficient manner.

The Offshore Engineering & Construction Division is one of the leaders in the SURF segment thanks also to other distinctive assets such as the top class FDS 2, a 183-metre long, 32-metre wide mono-hull equipped with a cutting-edge class 3 DP system and a pipeline fabrication system. It has a vertical J-lay tower with a holding capacity of 2,000 tonnes capable of laying quad joint sealines of up to 36" in diameter and also possesses the capability to operate in S-lay mode. With its 1,000-tonne crane and two 750 and 500-tonne capstan winches (both featuring a heave compensation system), the FDS 2 is suited to even the most challenging deep-water projects. The other vessels that complete the fleet for the development of deep-water reserves are the FDS, endowed with dynamic positioning, a 600-tonne lifting capacity crane and a vertical pipelaying system capable of operating in water depths of over 2,000 metres and the Normand Maximus, a long-term lease used for underwater installation and laying of umbilicals and flexible lines, thanks to the 900-tonne crane and the 550-tonne vertical lay tower.

As far as the pipeline market is concerned, Saipem owns, amongst other assets, the Castorone, a 330-metre long and 39-metre wide mono-hull, designed to carry out the most demanding deep water and large

diameter pipelaying projects, but with the necessary flexibility and productivity to be effective even in less complex projects. The vessel's distinctive features include a class 3 DP system, the capacity to fabricate and lay triple joint pipes of up to 60" in diameter (including coating) with a tensioning capacity of up to 1,000 tonnes (up to 1,500 tonnes in pipe flooding conditions using a special patented clamp), a highly automated firing line made up of 7 workstations, the articulated stinger for both shallow and deep-water pipelaying through an advanced control system, and the capacity to operate in extreme environments (Ice Class A0).

Saipem's fleet of vessels also includes the Saipem 7000, which is equipped with a dynamic positioning system, has a 14,000-tonne lifting capacity and is capable of laying subsea pipelines in ultra-deep waters using the J-lay system and can handle a suspended load of up to 1,450 tonnes during pipelay operations, and the Saipem 3000, which is capable of laying flexible pipelines and installing umbilicals and mooring systems in deep-waters up to 3,000 metres and installing subsea structures of up to 2,200 tonnes.

Saipem is involved on an ongoing basis in the management and development of its fleet, carrying out constant maintenance and continuous upgrading and improvement of its assets in line with technological developments and client requirements, with the aim of maintaining its operating capacity and high safety standards in a continuously evolving market.

Saipem is constantly engaged in a process of technological innovation and the technologies, both existing and under development, aim to be used throughout the life span of the field (Life of Field); for example: the study and industrialisation of subsea process and treatment systems, such as SPRINGS developed with Total and Veolia, which treats subsea water for the sea water used to be injected into wells; the new generation of resident and autonomous ROV platforms, Hydrone and our long tieback technologies.

Our technological endeavours also contribute to maintaining the highest level of safety, efficiency and productivity of our assets, and we achieve this with our welding (e.g. Internal Plasma Welding for clad pipes), automation and digitalisation technologies.

Market conditions

2018 was another challenging year for the Offshore Engineering & Construction sector, as the spending by oil companies for goods and services in the relevant segments showed slight improvement compared to 2017.

With regard to the segments, there was a slight decrease in expenses for surface development, i.e. EPCI contracts for topside and jackets, as opposed to an ever increasing growth in expenses related to subsea development. Indeed, most recently, our customers have shown their willingness to engage in quicker and less expensive development such as undersea tie-back, maximising the use of existing surface resources and delaying larger developments involving complex underwater architectures and related surface hosting facilities. In addition to the above, during 2018 the most relevant projects assigned outside the Middle East are located in deep waters and, therefore, require the building of floating production units as development schemes. As far as geographical areas are concerned, in 2018 there were no significant changes: the Middle East is the least influenced by the new oil price and, indeed, is showing an increase in spending, while Europe, Russia and the Caspian Sea have shown a slight decrease compared to the previous year.

Nevertheless, 2018 has shown positive signs that seem to point to an expected future recovery. The number of Investment Decisions (FIDs) that customers have taken during the year is higher than in the previous year, which should give rise to an increase in contractor revenues. In addition to the FID, the increase in the spending of the oil companies for the front-end engineering design (FEED) should be noted, which seems to herald a long-awaited recovery, the timing of which is still uncertain.

Capital expenditure

In the Offshore Engineering & Construction Division, investments for the year, with the exception of the acquisition of the vessel Saipem Constellation, were mainly attributable to maintenance and upgrading of existing assets.

New contracts

The most significant awards in 2018 include:

- for Barzan Gas Co, a new contract in the Middle East, which includes engineering, procurement, construction and installation related to two export pipelines, two

interconnection pipelines, connecting elements between pipelines and various subsea structures;

- for Petrobel, additional work related to the 'Ramp Up to Plateau' phase of the 'supergiant' Zohr Field Development project, located in the Mediterranean Sea off the Egyptian coast. Activities include engineering, procurement, construction and installation of a second gas export pipeline and related interconnection lines, umbilicals and electric and fibre optic cables, as well as EPCI works for the development of 10 deep water wells;
- for Esso Exploration & Production Guyana Ltd, a contract in Guyana for the second phase of the development of the Liza field, continuing from the first phase already assigned in 2017. The scope of the work concerns the engineering, procurement, construction and installation of risers, pipelines, subsea structures and connecting jumpers, as well as the transportation and installation of umbilicals, manifolds and water and gas injection systems;
- for Total, a contract in Azerbaijan for the development of the Absheron camp in the Caspian Sea. The scope of the work includes engineering, procurement, construction and installation, assistance for commissioning and testing of a production flowline, a terminal structure and the related umbilical cable;
- for Tolmount Development Partners (Premier Oil and Dana Petroleum), a contract in the southern part of the North Sea, which involves engineering, procurement, construction and installation of a pipeline system and related facilities for the development of the Tolmount field;
- for Eni Congo, a contract in the Republic of Congo for an MMO (Maintenance, Modifications & Operations) project related to the Electrique du Congo plant, which will cover more than half of the country's electricity needs;
- for ConocoPhillips, a new contract in the North Sea that encompasses dismantling of the LOGGS platform topside and jacket;
- for Al Khafji Joint Operations (KJO), a new project in the Arabian Gulf that includes engineering, installation and commissioning of a new pipeline for the transportation of crude oil;
- for Eni Congo, a contract in the Republic of Congo for an MMO (Maintenance, Modifications & Operations) project for providing maintenance, modification and improvement services for all Eni Congo offshore sites in the Republic of Congo for 36 months. The scope of the work includes on-site maintenance activities, such as emergency intervention, planned and unplanned maintenance, as well as the supply of spare parts, materials and

workshop services at the Boscongo yard (Pointe-Noire).

Work performed

The biggest and most important projects under way or completed during 2018 were as follows.

In Saudi Arabia:

- for Saudi Aramco, in the framework of the **Karan** project, work has been completed for the engineering, procurement, fabrication, transportation and installation of offshore facilities including an observation platform, a wellhead production deck module, two auxiliary platforms and a pipeline;
- for Saudi Aramco, as part of the **Safanya** and **Marjan Zulf** projects, activities are nearing completion for the engineering, procurement, fabrication, transportation and installation of seven deck platforms, pipelines and cables in the Zuluf and Marjan fields;
- for Saudi Aramco, for the **19 jackets** project activities, are nearing completion for offshore installation which includes engineering, procurement, manufacture, transportation and installation of nineteen jackets;
- for Saudi Aramco, the offshore installation activities are nearing completion and hook up and pre-commissioning is in progress for the **Abu Safah** contract, which involves the engineering, procurement, fabrication, transport and installation phases for the construction of two jackets, two decks, flexible pipelines and composite cables in the field;
- for Saudi Aramco, the manufacturing and installation activities relating to **Manifa** for engineering, procurement, fabrication, transportation and installation of onshore/offshore pipelines with landfall are nearing completion;
- for Al Khafji Joint Operations (KJO), engineering and procurement activities are nearing completion for the **Laying of new hout crude** contract, which includes the engineering, procurement, construction, installation and start-up phases of a new pipeline for the transportation of crude oil.

In Qatar, for Barzan, engineering and procurement activities are in progress and fabrication has begun for the **Barzan Novated Items & Pipeline** contract, which includes the engineering, procurement, construction and installation phases relating to two export and interconnection pipelines, connecting elements between pipelines and various subsea structures.

In Guyana, for ExxonMobil:

- engineering and procurement activities are nearing completion on the Liza project for

the engineering and procurement, and fabrication for the **Liza Phase 1** project are in progress, which include fabrication and installation of risers, flowlines, related structures and connections to develop the field located off the coast of Guyana at a depth of 1,800 metres. The contract also includes the transport and installation of umbilicals, foundations and collectors for wells and water and gas injection wells and systems;

- engineering and procurement activities have begun for the **Liza Phase 2** project, which includes engineering, procurement, fabrication and installation of risers, umbilicals, collectors, flowlines, well connections and related facilities for the development of the Liza field.

In the Gulf of Mexico:

- for Pemex, in the framework of the project for the development of the **Lakach** field, operations were reduced to a minimum after being suspended by the client. The project encompasses services of engineering, procurement, construction and installation of the system connecting the offshore field with the onshore gas conditioning plant;
- for Dragados Offshore de Mexico SA de Cv, engineering and procurement activities are ongoing for the **CA-KU-A1** project, which includes the transportation and installation of a compression platform in the Gulf of Mexico.

In Indonesia, for BP Berau Ltd, the installation of offshore platforms and pipelines has been completed and the onshore pipeline for the **Tanggung LNG Expansion** project is under construction. The project provides for the installation of two unmanned platforms and subsea pipelines.

In West Africa:

- the project for Total Upstream Nigeria Ltd for the subsea development of the **Egina** field in Nigeria is nearing completion. The scope of work includes engineering, procurement, fabrication, installation and pre-commissioning of subsea oil production and gas export pipelines, flexible jumpers and umbilicals;
- for Eni Angola activities relating to the **Vandumbu** project have been completed, which included engineering, procurement, construction and installation necessary for the development of the Vandumbu field in deep water;
- for Eni Ghana, engineering and procurement activities continue for the **EPCI Takoradi** project, which includes engineering, procurement and construction of infrastructures necessary for upgrading the capacity of service stations near the ports of Takoradi and Tema in Ghana.

In Egypt, for Petrobel:

- offshore installation activities are nearing completion for the **Zohr Oru** project, which includes engineering, procurement, construction and installation work for the 'Optimised Ramp Up' phase of the Zohr field development project for gas extraction;
- engineering and procurement activities have begun for the **Zohr Rup** project, which includes engineering, procurement, construction and installation work for the 'Ramp Up to Plateau' phase of the Zohr field gas development project.

In the North Sea:

- for Dong Exploration & Production, activities have been completed for the **Hornsea Wind Power** project, which involved the transport and installation of offshore platforms;
- for Statoil, activities are nearing completion on the **Johan Sverdrup Export Pipeline** project, which encompass the installation of a gas pipeline and an oil pipeline for the Mongstad refinery;
- for BP, dismantling activities continued for the **Miller** decommissioning project, which includes dismantling of the Miller platform topside and jacket;
- for Nord Stream 2 AG, the laying and bottom shore pull operations (stabilisation) have been completed in the German Baltic Sea area for the **Landfall** project for the construction of the last section of the pipeline that crosses the Baltic Sea and

landing at Greiswald, Germany;

- for ConocoPhillips, engineering and preparatory activities for the **LOGGS** project are in progress, involving the dismantling of the topside and jackets of a platform.

In Azerbaijan:

- for BP, work relating to the **Shah Deniz 2 (Call-off 002, 005 & 006)** contract has been completed, which included transport and installation services for jackets and topside, production systems and subsea structures for Phase 2 of the Shah Deniz field development project. Within the Framework Agreement for Phase 2 of the project, work continued on the Call-off 007 contract encompassing the transportation and installation of production systems and subsea facilities, the laying of optical fibre cables and production umbilicals, start-up, supply of the crew and operational management of the new vessel;
- for Total E&P, engineering and procurement activities have begun for the **Absheron** project, which includes engineering, procurement, construction and installation of pipelines and umbilical systems in the Caspian Sea.

In Italy, for Trans Adriatic Pipeline AG and within the **Trans Adriatic Pipeline** project, the engineering work continued for the installation of a pipeline for the transportation of gas between Albania and Italy via the Adriatic Sea.

Offshore fleet at December 31, 2018

Saipem 7000	Self-propelled, semi-submersible, dynamically positioned crane and pipelay vessel capable of lifting structures of up to 14,000 tonnes and J-laying pipelines at depths of up to 3,000 metres.
Saipem Constellation	Dynamically positioned vessel for Reel-Lay of rigid and flexible pipelines, down to ultra-deep water depths. It is equipped with a 3,000 tonnes crane and 2 tensioners each with 400 tonnes capacity.
Saipem FDS	Dynamically positioned vessel utilised for the development of deep-water fields at depths of over 2,000 metres. Capable of launching 22" diameter pipes in J-lay configuration with a holding capacity of up to 750 tonnes and a lifting capacity of up to 600 tonnes.
Saipem FDS 2	Dynamically positioned vessel utilised for the development of deep-water fields, capable of launching pipes with a maximum diameter of 36" in J-lay mode with a holding capacity of up to 2,000 tonnes and depths up to 3,000 metres. Also capable of operating in S-lay mode with a lifting capacity of up to 1,000 tonnes.
Castoro Sei	Semi-submersible pipelay vessel capable of laying large diameter pipe at depths of up to 1,000 metres.
Castorone	Self-propelled, dynamically positioned pipe-laying vessel operating in S-lay mode with a 120-metre long S-lay stern stinger composed of 3 articulated and adjustable sections for shallow and deep-water operation, a holding capacity of up to 1,000 tonnes, pipelay capability of up to 60 inches, onboard fabrication facilities for triple and double joints and large pipe storage capacity in cargo holds.
Normand Maximus	Dynamic positioning ship (acquired through a long-term lease) for laying umbilicals and flexible lines up to a depth of 3,000 metres. It is equipped with a crane that has a lifting capacity of up to 900 tonnes and a 550 tonne vertical lay tower with the possibility of laying rigid flow lines.
Saipem 3000	Mono-hull, self-propelled D.P. derrick crane ship, capable of laying flexible pipes and umbilicals in deep waters (3,000 metres) and lifting structures of up to 2,200 tonnes.
Dehe	Dynamically positioned (leased) vessel equipped with anchors for laying pipes and a crane with a lifting capacity of up to 5,000 tonnes, capable of deep water installations up to depths of 3,000 metres and laying pipes up to 600 tonnes using 3 tensioners.
Castoro II	Derrick lay barge capable of laying pipe of up to 60' diameter and lifting structures of up to 1,000 tonnes.
Castoro 10	Trench/pipelay barge capable of burying pipes of up to 60" diameter and of laying pipes in shallow waters.
Castoro 12	Pipelay barge capable of laying pipes of up to 40" diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
Castoro 16	Post-trenching and back-filling barge for pipes of up to 40" diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
Ersai 1	Heavy lifting barge equipped with 2 crawler cranes, capable of carrying out installations whilst grounded on the seabed and is capable of operating in S-lay mode. The lifting capacities of the 2 crawler cranes are 300 and 1,800 tonnes, respectively.
Ersai 2	Work barge equipped with a fixed crane capable of lifting structures of up to 200 tonnes.
Ersai 3	Support barge with storage space, workshop and offices for 50 people.
Ersai 4	Support barge with workshop and offices for 150 people.
Bautino 1	Shallow water post trenching and backfilling barge.
Bautino 2	Cargo barge for the execution of tie-ins and transportation of materials.
Ersai 400	Accommodation barge for up to 400 people, equipped with gas shelter in the event of an evacuation due to H ₂ S leaks.
Castoro XI	Heavy-duty cargo barge.
Castoro 14	Cargo barge.
Castoro 15	Cargo barge.
S42	Cargo barge, currently used for storing the J-lay tower of the Saipem 7000.
S43	Cargo barge.
S44	Launch cargo barge, for structures of up to 30,000 tonnes.
S45	Launch cargo barge, for structures of up to 20,000 tonnes.
S46	Cargo barge.
S47	Cargo barge.
S 600	Launch cargo barge, for structures of up to 30,000 tonnes.

ONSHORE ENGINEERING & CONSTRUCTION

General overview

The Saipem Group's Onshore Engineering & Construction expertise is focused on the execution of large-scale projects with a high degree of complexity in terms of engineering, technology and operations, with a strong bias towards challenging projects in difficult environments and remote areas.

Saipem enjoys a worldwide leading position in the Onshore sector, providing a complete range of integrated basic and detailed engineering, procurement, project management and construction services, principally to the Oil & Gas, complex civil and marine infrastructure and environmental markets. The Company places great emphasis on maximising local content during project execution phase in a large number of the areas in which it operates.

Market conditions

The snapshot of 2018, based on the EPC projects declared to the market, shows a volume of allocations increasing over the last three years. During the period of downturn in the market recorded after 2014, engineering and construction companies operating in E&C have undertaken a renewal process aiming to search for new technologies and opportunities, even outside their traditional markets, with particular attention to project efficiency and costs. Although the price of oil reached \$80/barrel in 2018, uncertainty of market recovery times remained evident. The ongoing geopolitical tensions in different areas weigh on the current context, such as in Iran where the finalisation of new projects is encountering various obstacles, following also sanctions imposed by the United States.

The volume of EPC contracts awarded in the Refining segment, which represents almost half of the total volume awarded in 2018. Important contracts were also awarded in the LNG, Upstream, Fertilizer and Pipeline segments. Minor awards were recorded in the Petrochemical segment.

Globally, a significant share of awarded EPC projects were located in the Middle East (major projects in Kuwait, Iraq, Bahrain, United Arab Emirates, Oman and Jordan) in the Refining, Upstream, Fertilizer and Pipeline segments; in North America awards were mainly in the LNG segment, with significant awards also in

Petrochemicals and Refining; in North Africa (Egypt and Algeria) in the Upstream, Refining, Pipeline (water) and Fertilizer segments; in Asia-Pacific (India, Thailand and minor projects in several other countries) in the Fertilizer, Refining, LNG segments, and with minor projects also in the Petrochemicals and Upstream; in Russia-Central Asia (Kazakhstan, Azerbaijan and minor projects in Russia) in the Refining, Pipeline and Upstream segments and in Africa (Nigeria) awards in the Fertilizer segment and in South America (Brazil) in the Upstream segment.

The Onshore market in 2018, compared to last year, shows that the Upstream segment was down, despite important contract awards in North Africa, the Middle East and South America. The LNG segment is growing as a result of projects in the United States thanks to both new awards and initiatives already assigned, but waiting to find the necessary funding. Significant downturn should be noted in the pipeline segment which sees its importance reduced, despite some significant awards, mainly in the gas and water sectors, in North Africa (Egypt) and Russia-Central Asia (Kazakhstan), oil and gas projects have been awarded in the Middle East (Iraq, Oman and Saudi Arabia) and smaller projects in Asia-Pacific (Mongolia and Australia). Considerable growth for the Refining segment, thanks to the award of important projects in the Middle East (Iraq, Bahrain, United Arab Emirates and Oman), in North Africa (Egypt), in Asia-Pacific (the largest in Thailand awarded to us/by us), in Russia-Central Asia (Azerbaijan). The Petrochemical segment reduced its quota due to the lack of important awards, despite the fact that prospects for the second half of the year were positive (Egypt). Several minor awards were made in Europe, North America and Asia-Pacific. The Fertilizer segment grew considerably, with important projects awarded in Asia/Pacific (India), Africa (Nigeria and Egypt) and the Middle East (Jordan). The Infrastructure segment continues to show positive signs of large investments internationally both in traditional markets (Europe and United States) and in new markets (Egypt, Middle East, India, Russia and the Far East). The most important acquisitions were recorded in the Middle East (Qatar, Saudi Arabia and the United Arab Emirates) for projects in urban areas and in Europe for railway projects funded in part by the European Union (Norway, Sweden, Romania, Bulgaria, Poland and Italy).

Finally, the rapid economic development occurring in the emerging countries is creating an important new market for large-scale civil and port infrastructures which Saipem is targeting, especially in strategic regions.

Capital expenditure

Capital expenditure in 2018 in the Onshore Engineering & Construction sector focused mainly on the acquisition of equipment and the maintenance of the existing asset base.

New contracts

The most significant contracts awarded to the Group during 2018 were:

- for Rete Ferroviaria Italiana, a new contract for the construction of the first lot of the Brescia-Verona high speed rail line. The contract provides for the engineering, procurement and construction of a railway track of approximately 48 kilometres involving the regions of Lombardy and Veneto and, in particular, the provinces of Brescia, Mantua and Verona;
- for Duqm Refinery and Petrochemical Industries Co, a new contract for engineering, construction procurement and start-up of package 3 as part of the Duqm Refinery development project, located near the coast, in the north east of Oman. Once completed, the refinery will have a capacity of around 230,000 barrels per day;
- for Saudi Arabian Oil Co (Saudi Aramco), a new contract for the procurement and construction for the 'South Gas Compression Plant Pipelines' project related to the development of the gas plant Haradh (HdGP), located in the east of the country. This project is part of the Southern Area Energy Efficiency Programme;
- for PTT LNG, a new contract which provides for the engineering, procurement, construction and start-up of the Nong Fab terminal for the reception, storage and regasification of liquefied natural gas in the Mueang Rayong district of south-east Thailand;
- for ExxonMobil Iraq Ltd, a new contract in Iraq for the DS6 project for the debottlenecking of the West Qurna field.

- Debottlenecking is the optimisation process of a facility in order to increase its overall capacity;
- for Petròleos Mexicanos (Pemex), a new contract in Mexico related to work in the 'Miguel Hidalgo' refinery located in Tula de Hallende. The contract provides for the relaunch of a hydrodesulphurisation plant for residues used to reduce sulphur levels in products derived from the refining of oil;
 - for Nigeria LNG Ltd, a new contract in Nigeria for Front End Engineering Design and preparing the EPC proposal for the NLNG T7 project, which provides for the expansion of the existing LNG plant located in Finima on Bonny island;
 - for Gastrans, a contract for engineering services and the acquisition of construction permits regard the laying of gas pipelines in Serbia;
 - for Thai Oil, a joint venture¹ new contract with Samsung Engineering and Petrofac International (leader), which provides for engineering, procurement, construction and start-up relating to the completion of new units in the Sriracha refinery located approximately 130 kilometres from Bangkok, Thailand. The new units for processing crude oil and residue, with related utilities, allow for an increase in the refinery's capacity of approximately 50%.

Work performed

The biggest and most important projects under way or completed during 2018 were as follows.

In Saudi Arabia:

- for Saudi Aramco, the design and procurement activities related to the **Hawaiyah Gas Plant Expansion** project commenced for the expansion of the Hawaiyah gas treatment plant located in the south-eastern part of the Arabian Peninsula; the site was opened in November and construction began;
- work continues for Saudi Aramco on two EPC contracts (Packages 1 & 2) relating to the **Jazan Integrated Gasification Combined Cycle** project for the generation of electricity to be undertaken at approximately 80 kilometres from the city of Jazan, in south-western Saudi Arabia.

(1) Company consolidated using the equity method therefore the result of the project is included in the balance of income (expenses) from investments.

The Package 1 contract includes the gasification unit, the soot and ashes removal unit, the acid gas removal unit and the hydrogen recovery unit. The Package 2 contract includes two sulphur recovery units and the associated storage systems.

The scope of work of both packages include engineering, procurement, construction, pre-commissioning, assistance to commissioning;

- for Petrorabigh (a joint venture between Saudi Aramco and Sumitomo Chemical), the mechanical completion of the **Rabigh II** project related to the naphtha conversion plant and the complex for the production of aromatic compounds, while additional works, awarded during the second half of 2016, are ongoing related to the Utilities and Offsite Facilities package;
- for Saudi Aramco, work is coming to a close on the **Complete Shedgum-Yanbu Pipeline Loop 4&5** project, which included detailed engineering, procurement of all materials, excluding the line pipe supplied by the client, construction, pre-commissioning and assistance with commissioning;
- for Saudi Aramco, in November, in the **EPC Khurais** project, which provides for the expansion of onshore production centres in the Khurais, Mazajili, Adu Jifan, Ain Dar and Shedgum fields, the Satellite and the Gosp 5 plants (oil production) were delivered and began production;
- for Saudi Aramco, material procurement and construction began for the **South Gas Compression Plants Pipeline** project relating to the development of the gas plant Haradh (HdGP) located in the east of the country, which provides for the auditing of detailed engineering developed by the client, procurement of all materials, excluding the line pipe for coated carbon steel lines provided by the client, as well as construction, pre-commissioning and commissioning support.

In Kuwait:

- engineering and procurement activities are ongoing for Kuwait Oil Co (KOC) related to the **Feed Pipelines for New Refinery** project. The contract includes engineering, procurement, construction and commissioning activities related to the development of the new connection lines and related pumping station and measurement of the new Al Zour refinery located in south Kuwait;
- for Kuwait Integrated Petroleum Industries Co (KNPC), in joint venture with Essar Projects Ltd, engineering and procurement activities for the **Al-Zour Refinery**, Package 4 project are nearing completion. The contract encompasses design, procurement, construction, pre-commissioning and assistance during

commissioning tests, start-up and checks on the performance of tanks, related road works, offices, pipelines, piping support frames, water works and control systems for the Al-Zour refinery.

In Oman, for Duqm Refinery and Petrochemical Industries Co Llc, engineering and procurement activities related to the **Duqm Refinery package 3** project began. The contract includes engineering, procurement, construction, commissioning and start-up of the tanks located about 80 kilometres south of Duqm, of the pipeline linking them to the refinery and the facilities for exporting the products to the port of Duqm.

In Chile, for the Caitan consortium (Mitsui-Tedagua), engineering and procurement for project materials activities were completed and construction is ongoing for the **Spence Growth Option** project for the development of a desalination plant and water pipelines in the north of Chile. The project includes engineering, procurement, construction and commissioning activities and will provide desalinated water to the Spence mine, owned by BHP mining company, located at 1,710 metres above sea level. The scope of Saipem's work includes a pipeline, completion of three pumping stations, a terminal station and related electrical grids and control systems.

In Kazakhstan:

- work continued for TengizChevrOil (TCO), for the **Future Growth Project/Wellhead Pressure Management**. The contract provides for fabrication up to the mechanical completion of complete pipe rack (PAR) modules destined for the Tengiz field. Saipem also won other fabrication packages for process modules and part of the PAR Hook-up at Tengiz;
- work is ongoing for North Caspian Production Operations Co BV on the **Major Maintenance Services** project. The contract encompasses the provision of maintenance and services for offshore and onshore rigs.

In Indonesia, for BP Berau Ltd, work is nearing completion in Jakarta for engineering and procurement while on site construction of infrastructure is occurring at the same time as civil works necessary for the **Tanggung LNG Expansion** project, which involves the construction of an onshore LNG plant, auxiliary services, an LNG jetty and the associated infrastructure.

In Thailand, for PTT LNG Co Ltd, work has begun in Rayong for preparation of the site and piling for the construction of the

Regasification Terminal for the **Nong Fab LNG Project** including storage tanks and a jetty for importing LNG, while in Taipei activities related to engineering and procurement are under way.

In Turkey, work is continuing for Star Refinery AS on the **Aegean Refinery** project and start-up of the refinery is planned for the first quarter of 2019. The contract includes engineering, procurement and construction of a new refinery with a marine terminal consisting of one import jetty and two export jetties.

In Nigeria:

- for Dangote Fertilizer design and procurement activities are nearing completion and construction is ongoing for the **Dangote** project for the new ammonia and urea production complex. It is scheduled to be completed in the first quarter of 2019. The scope of work encompasses engineering, procurement and construction of two twin production streams and related utilities located at the Lekki Free Trade Zone, Lagos State;
- for Southern Swamp Associated Gas Solution (SSAGS), construction was completed for the four sites, while start-up activities for the **Southern Swamp** contract are ongoing. The contract comprising engineering, procurement, construction and commissioning of compression facilities at four sites and of new gas central production facilities at one of the sites, which will treat the routed associated gas;
- for Nigerian Agip Oil Co (NAOC), design, procurement and construction continues for **OKPAI 2** project, which includes engineering, procurement, construction and installation of a power plant consisting of two combined-cycle groups;
- for Nigeria LNG Ltd (NLNG), design for the **Nigeria LNG - train 7** project is under way to expand the existing LNG plant on Bonny Island. The scope of the contract includes design for the Front End Engineering Design (FEED) phase and the preparation of a bid to complete the 'lump sum turnkey' project.

In Uganda, for Yaatra Africa (which is developing and managing the investment on behalf of the Ugandan government), a FEED is being completed with the related Open Book Estimate (OBE) for a grass roots refinery at Hoima with the corresponding pipeline of over 200 kilometres and remote storage near Kampala. The refinery is part of the largest Ugandan project which aims to make the most of recently discovered oilfields in Albertine Graben near Lake Albert.

In Italy:

- for Ital Gas Storage (IGS), engineering, procurement and construction activities

have been completed for the **Natural Gas Storage Plant** EPC project, which included the development of natural gas storage plants in Cornegliano Laudense, in the province of Lodi. Currently, following the injection of gas in the plants, commissioning and start-up activities are under way;

- for Versalis, start up activities have been completed in relation to the **Versalis-Ferrara IT** EPC contract for the construction of a fourth production line to operate alongside three existing lines, in addition to increasing production capacity and upgrading the plant's outside battery limit auxiliary systems, both for those regarding the EPC **Versalis-Priolo IT** project, which encompassed the completion of an interconnecting T9 cut-off facility;
- for Eni Refining & Marketing, as part of the **Tempa Rossa** project, the activities are under way for the construction of the auxiliary systems and of two tanks for the storage of the crude oil coming from the Tempa Rossa field operated by Total;
- for Rete Ferroviaria Italiana, engineering activities are under way in the context of the **CEPAV 2 high speed** Brescia-Verona project, which includes engineering, procurement and construction of 48 kilometres of railway lines in the three provinces of Brescia, Mantua and Verona.

In Mexico, for Pemex:

- activities are under way under the **Tula Planta de H-Oil** contract, which includes engineering, procurement, commissioning and launch of a unit at the 'Miguel Hidalgo' refinery located in Tula;
- activities are underway under the **Tula Planta de Alquilacion** contract, which includes engineering, procurement, commissioning and launch of a unit at the 'Miguel Hidalgo' refinery located in Tula;
- construction activities have been completed for the **Revamping Works Madero** contract are nearing completion, involving the maintenance and revamping of five units of the 'Francesco I' refinery in Minatitlan;
- activities have been completed for the **Minatitlan Refinery Plant** contract, which included engineering, procurement, commissioning and launch of three units at the 'General Lazaro Cardenas' refinery in Minatitlan.

In Azerbaijan and Georgia, for the South Caucasus Pipeline Co (SCP), construction is nearing completion on the **SCPX** gas pipeline for the Southern Gas Corridor.

Floaters

The FPSO market continues to expand, despite current uncertainties.

Several feasibility studies, FEEDs and tenders for EPC contracts are currently underway, and the oil companies express their confidence in approving the final investment decisions (FID) in the coming months. Five FPSO contracts were awarded in 2018: Sepia and Libra 1 of Petrobras, Penguin North Sea FPSO of Shell, Johan Catsberg Norway of Statoil and Karish FPSO of Energean Operator in Israel, and Liza 2 FPSO in Guinea of Exxon. Furthermore, two large FEEDs were also awarded for FPSO: Barossa for ConocoPhillips and Tortue in Senegal for BP. Several ongoing developments such as Bonga Southwest in Nigeria, Petrobras 4 FPSO in tendering phase Marlim 1 & 2, Parques das Baleias and Mero 2. Australia North and West will soon be operational with Browse, Scarborough and Gorgon gas FPSU and Masela for the Indonesian side. Reliance Industries is contracting for an FPSO in India. 2019 looks promising. The FLNG/FSRU market is not really active, but is booming for FSRU, technology requested by new LNG customers. In particular, Asia looks like an expanding market for those types of ships, but there are also small projects in the Mediterranean.

Saipem owns two FPSO vessels, they are: **Cidade de Vitoria**, a production storage, processing and offloading vessel (FPSO) with a production capacity of 100,000 barrels a day and the **Gimboa**, a production storage, processing and offloading vessel (FPSO) with a production capacity of 60,000 barrels a day.

New contracts

The most significant contracts awarded to the Group during 2018 were:

- for LLC ARCTIC LNG-2, a new contract acquired in joint venture² with RHI Russia BV

(affiliated company of Renaissance Heavy Industries Llc), which is part of the construction of three liquefied natural gas plants that will be installed on reinforced concrete support and storage structures. The scope of the contract includes design, procurement, construction, transportation by sea and installation of three concrete support and storage structures. Construction will take place in Murmansk on a site made available by Novatek and then the structures will be transported and installed in Gydan, Russia.

Work performed

The largest/most important projects under way or completed during 2018 were:

- in Angola, for Total, entry into production began for the **FPSO Kaombo Norte**. Construction and testing was completed in the **FPSO Kaombo Sul** site, which will be moored in Angola during the first quarter of 2019. The Kaombo project involves engineering, procurement, construction and commissioning of two FPSO vessels, followed by a production and maintenance management phase for a duration of 7 years plus an additional 8 optional years.

In the Leased FPSO segment, the following vessels carried out operations during 2018:

- the **FPSO Cidade de Vitoria** carried out operations for Petrobras as part of an eleven-year contract on the second phase of development of the Golfinho field, situated off the coast of Brazil at a water depth of 1,400 metres;
- the **FPSO Gimboa** carried out operations on behalf of Sonangol P&P under a contract for the development of the Gimboa field, located in Block 4/05 offshore Angola, at a water depth of 700 metres.

(2) Company consolidated using the equity method therefore the result of the project is included in the balance of income (expenses) from investments.

OFFSHORE DRILLING

General overview

At December 2018, the Saipem offshore drilling fleet consisted of twelve vessels, divided as follows: six ultra deep-water units for operations at depths in excess of 1,000 metres (the drillships Saipem 10000 and Saipem 12000 and the semi-submersible drilling rigs Scarabeo 5, Scarabeo 7, Scarabeo 8 and Scarabeo 9), two high specification jack-ups for operations at depths of up to 375 feet (Perro Negro 7 and Perro Negro 8), three standard jack-ups for activities at depths up to 300 feet (Perro Negro 2, Perro Negro 4 and Perro Negro 5) and one barge tender rig (Saipem TAD).

The offshore drilling fleet operated in Cyprus, in Egypt (both in the Mediterranean and in the Red Sea), in the Black Sea, in Morocco (Atlantic), in the Middle East, in Congo, in Vietnam and in Indonesia.

Market conditions

During 2018, the first signs of a possible recovery of the market in the medium term were recorded; the commercial activities conducted by customers for the award of future contracts were indeed rather significant, suggesting a gradual recovery in the planning of future activities.

The uneven trend in oil prices during the course of 2018 demonstrates a climate of uncertainty. The pressure on rates, which remained at the mostly weak levels recorded in 2017, was very high also in 2018.

Similarly, rates of use did not differ from the average values of 70% recorded in 2017, with the sole exception of the decline in the deep water floaters segment, which once again proved to be among the worst hit by the weakness of the market.

In line with recent years, the Oil & Gas sector's downturn has continued pushed several companies to opt for dismantling the oldest assets and those with the lowest probability of being used. Overall approximately 200 facilities have been withdrawn from the market since the beginning of the crisis, leading to a more than 20% drop in drilling rigs. While up until 2017 the floaters segment suffered the greatest downsizing, in 2018 it was the standard jack-up category, with more than 30 plants withdrawn, that suffered the most significant drop.

Due to the significant number of contracts awarded during the previous positive market phase, the construction of new offshore

drilling units continued to remain at significant levels: 119 new units are currently in construction (77 jack-ups, 14 semi-submersibles and 28 drillships), of which only five have been contracted for use. As has already occurred in the past, the negative market phase has also led, in several cases, to the postponement of the time frames for the delivery of plants under construction, ostensibly to 2019 and beyond, while awaiting better market conditions. The significant number of units that will be delivered in the medium term, the already mentioned retirement that affected part of the existing fleet and the consolidation operations on the market that occurred between 2017 and 2018 represent important changes in the offshore drilling segment that may have beneficial effects in the medium to long term.

New contracts

The most impactful contracts awarded to the Group during the year were:

- for Eni, the execution of works for the construction of fifteen wells off the coast of Mexico; the contract also includes various options for a total of thirteen wells; the project will be completed with the use of the Pioneer jack-up leased from a third party;
- for AkerBP, the execution of works for the construction of four wells off the coast of Norway with the use of the semi-submersible Scarabeo 8; the contract also includes two additional optional wells. Operations are expected to start indicatively in the first quarter of 2019;
- for Total, the construction of a well off the coast of Norway with the use of the semi-submersible Scarabeo 8;
- for Eni, the execution of works for the construction of a well off the coast of Norway with the use of the semi-submersible Scarabeo 8; work is scheduled to begin after completion of commitments already made to AkerBP;
- for Eni, the execution of works for the construction of a well off the coast of Pakistan through the use of the drillship Saipem 12000;
- for Shell, in direct continuation of the activities carried out since June 2018 and acquired during the previous year, works for the construction of an additional well in Norway; the project, assigned through the use of a contractual option, provides for the use of the semi-submersible Scarabeo 8;

- for Eni, the execution of works for the construction of three wells off the coast of Indonesia through the use of the semi-submersible **Scarabeo 7**;
- for Saudi Aramco, extension of the existing contract to December 2018 for the use of the jack-up **Perro Negro 7** off the coast of Saudi Arabia;
- for National Drilling Co (ADNOC), extension of the existing contract to June 2019 for the use of the jack-up **Perro Negro 8** off the coast of the United Arab Emirates.

Capital expenditure

Investments during the year concerned class reinstatement and work to ensure the compliance of vessels with international regulations and client requirements. Among the rigs subject to maintenance activities aimed at renewing the class certification there was in particular the jack-up **Perro Negro 7**. In addition, activities were started to purchase equipment (in particular the second BOP) for the Eni - Mozambique project in the backlog carried out by the **Saipem 12000** drillship starting from 2019.

Work performed

In 2018, Saipem's offshore units drilled 67 wells (of which 48 workovers), totalling 78,871 metres.

The fleet was used in the following way:

- ultra deep water/deep-water units: the drillship **Saipem 12000** operated off the coast of Cyprus where, at the beginning of March, it completed the first of two wells provided for the contract with the client Eni. Subsequently, for reasons not attributable to Saipem, it was impossible to drill the second well so the client opted to move the drillship to Morocco for the operations completed in the month of May. The vessel was then sent

to warm stacking in Las Palmas in the Canary Islands until its transfer, completed in December, in Pakistan for contracts signed with Eni, the drillship **Saipem 10000** continued operations in Egypt in the framework of a multi-year contract for Eni. In March, the semi-submersible **Scarabeo 9**, completed drilling operations for a well in the Black Sea and subsequently was prepared to cross the Bosphorus (disassembly of drilling towers and reassembly after the crossing) and began drilling for IEOC in Egypt. The semi-submersible **Scarabeo 8** was operating until May preparing for contractual commitments with Shell, Total and AkerBP and, subsequently, completed operations for Shell and started operations for Total. The semi-submersible **Scarabeo 7**, following the customer's decision to suspend operations due to difficult market conditions, remained in paid standby until May then it started operations to drill a well off the coast of Vietnam for Eni, from September onwards it was used by Eni in Indonesia. The semi-submersible **Scarabeo 5**, written down in 2017, remained in stacking, awaiting the acquisition of new contracts;

- high specification jack-up: the **Perro Negro 8** and the **Perro Negro 7** continued to operate respectively for ADNOC off the coast of the United Arab Emirates and for Saudi Aramco off the coast of Saudi Arabia;
- standard jack-ups: the **Perro Negro 2**, written down in 2016, remained laid-up on Saipem's base in Sharja, United Arab Emirates, while waiting for new works. The **Perro Negro 5** continued operations in Saudi Arabia for Saudi Aramco. The **Perro Negro 4** continued operations in the Red Sea for Petrobel;
- other: the tender assisted **Saipem TAD** completed operations for Eni in January and, as of February has been working for Total off the coast of Congo, then completed in the month of December.

Utilisation of vessels

Vessel utilisation in 2018 was as follows:

Vessel	(No. of days)	December 31, 2018	
		under contract	idle
Semi-submersible platform Scarabeo 5		-	365 ⁽¹⁾
Semi-submersible platform Scarabeo 7		365	-
Semi-submersible platform Scarabeo 8		222	143 ⁽¹⁾
Semi-submersible platform Scarabeo 9		365	-
Drillship Saipem Saipem 10000		365	-
Drillship Saipem Saipem 12000		180	185 ^{(1) (2)}
Jack-up Perro Negro 2		-	365 ⁽¹⁾
Jack-up Perro Negro 4		365	-
Jack-up Perro Negro 5		365	-
Jack-up Perro Negro 7		261	104 ⁽²⁾
Jack-up Perro Negro 8		365	-
Tender Assisted Drilling Barge		365	-

(1) The vessel was not under contract.

(2) The vessel underwent class reinstatement works and/or preparation works for a new contract.

ONSHORE DRILLING

General overview

At December 2018, Saipem's onshore drilling rig fleet was composed of 87 units, of which 84 are owned by Saipem and 3 by third parties but operated by Saipem. The areas where Saipem operated were Latin America (Peru, Bolivia, Colombia, Ecuador and Argentina), the Middle East (Saudi Arabia and Kuwait), Kazakhstan, Italy, Romania and Africa (Congo and Morocco).

Market conditions

During 2018, the overall volume of investments made by oil companies in onshore drilling showed an increase compared to 2017, driven mostly by the recovery of operations in North America, which are more likely to be effected by changes in oil prices which exceeded an average value of \$70/barrel. Thanks to the development of non-conventional resources, drilling activity in terms of spending and active rigs in the United States registered steady growth compared with the same period of 2017, with day rates progressively rising during 2018. In Canada, a slight drop in drilling activity was seen with regard to both operation of the rigs and the day rates. In the international market, the one in which Saipem operates, average activities in 2018 increased much less compared to North America. The most dynamic areas, from an investment point of view and with a good increase in operational rigs, are the Asia-Pacific region, followed by the Middle East which recorded levels of activity that were substantially stable thanks to Saudi Arabia, which, with a total of almost 3,000 new wells drilled, is confirmed as the market of reference in the region, and the United Arab Emirates (Abu Dhabi) which recently approved an increase in oil production capacity. In Iraq the fleet increased in terms of drilling units thanks to increased production capacity of diverse operators. In Latin America drilling activities, in terms of spending, showed moderate growth compared to 2017, especially in Argentina where the government planned significant investments in the Vaca Muerta oil field, the largest shale gas field in the world. With regard to the other areas in which Saipem operates, Europe showed a slight drop in activities while in Africa investment levels were slightly higher.

The trend in 2018 confirmed a recovery in demand with the resulting slight increase in daily fees.

Capital expenditure

The main investments made during the year related to work to ready rigs for operations in Kazakhstan, Romania and Bolivia under previously acquired multi-year contracts. Improvement and integration interventions were also carried out for maintaining the operating efficiency of the fleet and meeting the specific requirements of client companies.

Work performed

In 2018, Saipem's offshore units drilled 163 wells (of which 8 workovers), totalling 638,927 metres.

In Latin America Saipem operated in several countries: in **Peru** work was carried out for various clients, (including Pluspetrol, CNPC, Frontera Energy and Petrotal) and Saipem was present in the country with seventeen of its own rigs (13 of which were used onshore and four were installed on offshore rigs) and two provided by the client. In **Bolivia** a total of five rigs were used for YPFB Andina, Shell and Repsol. In **Argentina** two rigs were used for Total and ExxonMobil. In **Colombia** Saipem was present with one rig that was used for Parex and Canacol Energy. In **Ecuador** four unites were deployed, one of which is operating with Halliburton. In **Venezuela** the nineteen rigs in the country remained inactive. In **Romania** drilling activities were carried out with the client OMV-Petrom. In **Saudi Arabia** Saipem deployed twenty-eight rigs which carried out operations for Saudi Aramco under previously acquired multi-year contracts. In **Kuwait** operations of two Saipem units provided to the client KOC are ongoing, under previously existing contracts. In **Kazakhstan** Saipem operated with three owned rigs, two of which were contracted to the client Zhaikmunay. One rig continued its operations and the second began drilling in the second half of 2018. In September rig 5947 was transferred to the United Arab Emirates (Sharjah) for commercial and strategic reasons. In Africa, Saipem operated in the **Congo** and in **Morocco**, in the former case for Eni Congo SA with the management of a unit owned by the client, and in the latter with a proprietary rig which began activities for Sound Energy. In **Italy**, work continued on

preparation of a rig for use for Eni; the works, initially expected to commence in the first half of 2016, were postponed to the first half of 2019 by the client. The period is, however, remunerated at the stand-by rate.

Utilisation of rigs

Average utilisation of rigs in 2018 was 65.3% (58% in 2017). As of December 31, 2018,

company-owned rigs amounted to 84, located as follows: 28 in Saudi Arabia, 19 in Venezuela, 17 in Peru, 5 in Bolivia, 4 in Ecuador, 2 in Argentina, 2 in Kazakhstan, 2 in Kuwait, 1 in Colombia, 1 in the United Arab Emirates, 1 in Italy, 1 in Morocco and 1 in Romania.

In addition, 2 third party rigs were used in Peru and 1 third-party rig in the Congo.

FINANCIAL AND ECONOMIC RESULTS

Reorganisation: impact on reporting

Since May 1, 2017, Saipem has had a new organisational structure comprising 5 divisions (Onshore Engineering & Construction, Offshore Engineering & Construction, Onshore Drilling, Offshore Drilling and XSIGHT). The results of the business sectors are published in line with the new organisational structure. The Floaters business line, which was previously part of the Offshore Engineering & Construction Division, is now part of the Onshore Engineering & Construction Division. The XSIGHT Division

is temporarily included in the Onshore Engineering & Construction because it is still in the start up phase and its results are currently not significant from a numerical perspective.

Operating results

The Saipem Group's 2018 operating and financial results and the comparative data provided for prior years have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Commission.

Saipem Group - Income statement

(€ million)	Year 2017	Year 2018	% Ch.
Net sales from operations	8,999	8,526	(5.3)
Other income and revenues	21	4	
Purchases, services and other costs	(6,505)	(6,103)	
Net reversals (impairments) of trade and other receivables	(35)	(57)	
Payroll and related costs	(1,618)	(1,522)	
Gross operating profit (EBITDA)	862	848	(1.6)
Depreciation, amortisation and impairment	(736)	(811)	
Operating result (EBIT)	126	37	(70.6)
Net finance income (expense)	(223)	(165)	
Net income (expense) from investments	(9)	(88)	
Result before income taxes	(106)	(216)	n.a.
Income taxes	(201)	(194)	
Result before non-controlling interests	(307)	(410)	33.6
Net result attributable to non-controlling interests	(21)	(62)	
Net profit (loss) for the year	(328)	(472)	43.9

Net sales from operations in 2018 amounted to €8,526 million.

Gross operating profit (EBITDA) amounted to €848 million. Depreciation, amortisation and impairment of tangible and intangible assets amounted to €811 million.

The **operating result (EBIT)** for 2018 amounted to €37 million. The main discrepancies are detailed below in the analysis by segment of operations.

The balance of net finance income (expense)

is -€165 million, down €58 million as a result of a lower exchange rate expenses.

The balance of net income (expenses) from investments is -€88 million, due to the worsening of a joint venture contract, accounted for using the equity method.

The **result before income taxes** amounted to a loss of €216 million. Income taxes were €194 million.

The **net result** was -€472 million.

(€ million)	Year 2017	Year 2018
Revenues	8,999	8,526
Write-downs of current assets	-	61
Adjusted revenues	8,999	8,587

(€ million)	Year 2017	Year 2018
Operating result (EBIT)	126	37
Impairment/write-down and restructuring expenses	314	497
Adjusted operating result (EBIT)	440	534

(€ million)	Year 2017	Year 2018
Net profit (loss) for the year	(328)	(472)
Impairment/write-down and restructuring expenses	374	497
Adjusted net profit (loss) for the year	46	25

The loss for the year amounted to €472 million (loss of €328 million in 2017), compared with the adjusted net income reduced by the following special items:

- write-downs of tangible and intangible fixed assets of €343 million deriving from the impairment test, mainly due to the prospective reduction in rates (over the period of the plan) in Offshore Drilling and the updating of the discount rate;

- write-downs of current assets and provisions for costs totalling €109 million in relation to some pending judgements on projects already completed, deriving from the activity of periodic legal monitoring of the evolution of the overall dispute;
- restructuring expenses of €45 million (net of the tax effect).

Adjusted EBIT reconciliation - EBIT 2017

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Total
Adjusted EBIT	359	(94)	199	(24)	440
Impairment/write-down of assets	-	24	122	66	212
Write-down of inventories ⁽¹⁾	-	-	12	28	40
Restructuring expenses ⁽¹⁾	25	28	2	7	62
Total special items	(25)	(52)	(136)	(101)	(314)
EBIT	334	(146)	63	(125)	126

(1) Total €102 million: adjusted EBITDA reconciliation equal to €964 million compared to EBITDA equal to €862 million.

Adjusted EBIT reconciliation - EBIT 2018

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Total
Adjusted EBIT	318	78	120	18	534
Impairment/write-down of assets	-	73	262	8	343
Write-down of current assets/provision for costs ⁽¹⁾	-	109	-	-	109
Restructuring expenses ⁽¹⁾	13	21	7	4	45
Total special items	(13)	(203)	(269)	(12)	(497)
EBIT	305	(125)	(149)	6	37

(1) Total €154 million: adjusted EBITDA reconciliation equal to €1,002 million compared to EBITDA equal to €848 million.

Saipem Group - Adjusted income statement

(€ million)	Year 2017	Year 2018	% Ch.
Adjusted net sales from operations	8,999	8,587	(4.6)
Other income and revenues	21	4	
Purchases, services and other costs	(6,465)	(6,055)	
Net reversals (impairments) of trade and other receivables	(35)	(57)	
Payroll and related costs	(1,556)	(1,477)	
Adjusted gross operating profit (EBITDA)	964	1,002	3.9
Depreciation, amortisation and impairment	(524)	(468)	
Adjusted operating result (EBIT)	440	534	21.4
Net finance expense	(223)	(165)	
Net income from investments	(9)	(88)	
Adjusted result before income taxes	208	281	35.1
Income taxes	(141)	(194)	
Adjusted result before non-controlling interests	67	87	29.9
Net result attributable to non-controlling interests	(21)	(62)	
Adjusted net profit (loss) for the year	46	25	(47.5)

Adjusted operating result and costs by function

(€ million)	Year 2017	Year 2018	% Ch.
Adjusted net sales from operations	8,999	8,587	(4.6)
Production costs	(7,989)	(7,469)	
Idle costs	(221)	(215)	
Selling expenses	(130)	(145)	
Research and development costs	(31)	(33)	
Other operating income (expenses)	(18)	(18)	
General and administrative expenses	(170)	(173)	
Adjusted operating result (EBIT)	440	534	21.4

The **adjusted net sales from operations** in 2018 for the Saipem Group amounted to €8,587 million, with a decrease of €412 million compared to 2017 due to the reduction of operations in Onshore Engineering & Construction and Offshore Drilling, partly offset by the increase in operations in Offshore Engineering & Construction. Production costs (which include direct costs of sales and depreciation of vessels and equipment) amounted to €7,469 million,

representing an decrease of €520 million compared with 2017. Idle costs fell by €6 million compared to 2017. Selling expenses of €145 million showed a €15 million increase due to current commercial efforts. Research expenses recorded under management costs, equal to €33 million, and general expenses, equal to €173 million, are similar to 2017.

Offshore Engineering & Construction

(€ million)	Year 2017	Year 2018
Net sales from operations	3,692	3,852
Cost of sales	(3,137)	(3,329)
Adjusted gross operating profit (EBITDA)	555	523
Amortisation/depreciation	(196)	(205)
Adjusted operating result (EBIT)	359	318
Impairment/write-down and restructuring expenses	(25)	(13)
Operating result (EBIT)	334	305

Revenues for 2018 amounted to €3,852 million, representing a 4.3% increase compared to the same period of 2017. This was mainly attributable to higher volumes recorded in the Middle East and the North Sea, which were in part offset by lower

volumes registered in the Caspian Sea and Central South America. The cost of sales of €3,329 million increased by €192 million compared to 2017, in line with the higher volumes. The adjusted gross operating profit (EBITDA)

for 2018 amounted to €523 million, compared to €555 million in 2017, while the margin on revenues was 13.6%, a decrease of 15% compared to the corresponding period of 2017. Saipem and South Stream Transport BV have expressed the common intention to negotiate – on a without prejudice basis – an amicable settlement of the arbitration in progress since November 2015. The negotiations are ongoing. The result

includes the effects of the hypothetical settlement being negotiated between the parties regarding the South Stream project. Depreciation and amortisation rose by €9 million compared to 2017, mainly due to the purchase and subsequent amortisation of the vessel, the Saipem Constellation. The operating result (EBIT) for 2018 amounts to €305 million and includes the restructuring expenses for €13 million.

Onshore Engineering & Construction

(€ million)	Year 2017	Year 2018
Adjusted net sales from operations	4,204	3,769
Cost of sales	(4,225)	(3,651)
Adjusted gross operating profit (EBITDA)	(21)	118
Amortisation/depreciation	(73)	(40)
Adjusted operating result (EBIT)	(94)	78
Impairment/write-down and restructuring expenses	(52)	(203)
Operating result (EBIT)	(146)	(125)

Adjusted revenues for 2018 amounted to €3,769 million, down by 10.3% compared to the same period in 2017, due mainly to lower volumes recorded in the Middle and Far East partly offset by greater volumes recorded in Central South America and the Caspian Sea. The adjusted gross operating profit (EBITDA) for 2018 amounted to €118 million, compared to -€21 million for 2017, which was reduced by the effect of the worsening of Floater business line profitability. Adjusted EBITDA does not include the loss of a joint venture contract, classified under the item 'expenses from equity investments' and corresponding

to almost all of this item.

Depreciation and amortisation are equal to €40 million, a decrease compared to 2017, mainly due to the end of the useful life of an FPSO vessel.

The operating result (EBIT) for 2018 amounted to a loss of €125 million and is inclusive of the write-down, following the impairment test, of the intangible assets (goodwill) for €60 million and an FPSO vessel for €13 million, the write-down of current assets and provisions for €109 million and for restructuring expenses of €21 million.

Offshore Drilling

(€ million)	Year 2017	Year 2018
Net sales from operations	613	465
Cost of sales	(292)	(239)
Adjusted gross operating profit (EBITDA)	321	226
Amortisation/depreciation	(122)	(106)
Adjusted operating result (EBIT)	199	120
Impairment/write-down and restructuring expenses	(136)	(269)
Operating result (EBIT)	63	(149)

Revenues for 2018 amounted to €465 million, a 24.1% decrease compared to the same period of 2017, mainly attributable to the semi-submersible rigs Scarabeo 5, completely written-down in previous years, and Scarabeo 8 which was idle for five months in 2018; this decrease was partly offset by greater revenues generated by the full scale operations of the jack-up Perro Negro 8 and the semi-submersible rig Scarabeo 9, which had been undergoing class reinstatement works in the first quarter of 2017. The cost of sales, which amounted to €239 million, was down €53 million, in line with the decrease in volumes compared to the same period of 2017.

The adjusted gross operating profit (EBITDA) for 2018 amounted to €226 million, compared to €321 million for the same period in 2017, while the margin on revenues was 48.6%, almost four points lower than the corresponding period of 2017, which was 52.4%. Maintaining the margin percentages, despite a significant reduction in activity, is largely attributable to the significant cost optimisation measures that were implemented.

Depreciation and amortisation decreased by €16 million compared to the same period in 2017, as a result of write-downs at the end of 2017.

The operating result (EBIT) for 2018 amounted

to a loss of €149 million, including the write-down of some vessels following the

impairment test for €262 million and restructuring expenses for €7 million.

Onshore Drilling

(€ million)	Year 2017	Year 2018
Net sales from operations	490	501
Cost of sales	(381)	(366)
Adjusted gross operating profit (EBITDA)	109	135
Amortisation/depreciation	(133)	(117)
Adjusted operating result (EBIT)	(24)	18
Impairment/write-down and restructuring expenses	(101)	(12)
Operating result (EBIT)	(125)	6

Revenues in 2018 amounted to €501 million and were in line with the figure for the same period in 2017.

The adjusted gross operating profit (EBITDA) for 2018 amounted to €135 million, equal to 26.9% of revenue, an improvement compared to the €109 million of 2017, which was equal to 22.2%. This was thanks to cost optimisation measures implemented in South America and to the recovery in efficiency in

the Middle East.

Depreciation of €117 million showed a €16 million decrease versus the same period in 2017, as a result of write-downs at the end of 2017.

The operating result (EBIT) for 2018 is €6 million and includes write-downs of tangible assets for €8 million and restructuring expenses for €4 million.

Balance sheet and financial position

Saipem Group - Reclassified consolidated balance sheet ⁽¹⁾

The reclassified consolidated balance sheet aggregates asset and liability amounts from the statutory balance sheet according to function, under three basic areas: operating, investing and financing.

Management believes that the reclassified consolidated balance sheet provides useful information that helps investors to assess Saipem's capital structure and to analyse its sources of funds and investments in fixed assets and working capital.

Dec. 31, 2017	(€ million)	Jan. 1, 2018 ⁽²⁾	Dec. 31, 2018
4,581	Net tangible assets	4,581	4,326
753	Net intangible assets	753	702
5,334		5,334	5,028
2,588	- Offshore Engineering & Construction	2,588	2,682
548	- Onshore Engineering & Construction	548	511
1,555	- Offshore Drilling	1,555	1,256
643	- Onshore Drilling	643	579
141	Investments	141	78
5,475	Non-current assets	5,475	5,106
619	Net current assets	571	295
(199)	Provisions for employee benefits	(199)	(208)
-	Assets (liabilities) held for sale	-	2
5,895	Net capital employed	5,847	5,195
4,558	Shareholders' equity	4,510	3,962
41	Non-controlling interests	41	74
1,296	Net borrowings	1,296	1,159
5,895	Funding	5,847	5,195
0.28	Leverage (net borrowings/shareholders' equity + non-controlling interests)	0.28	0.29
1,010,977,439	Number of shares issued and outstanding	1,010,977,439	1,010,977,439

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 64.

(2) Data were restated following the entry into force of IFRS 9 and IFRS 15.

Management uses the reclassified consolidated balance sheet to calculate key ratios such as the Return On Average Capital Employed (ROACE) and leverage (used to indicate the robustness of the company's capital structure).

Non-current assets at December 31, 2018 stood at €5,106 million, a decrease of €369 million compared to January 1, 2018.

The change derives from capital expenditure of €512 million, from depreciation and amortisation of €343 million and impairment of €468 million, from negative changes in investments accounted for using the equity method of €88 million and the negative net effect of €18 million deriving mainly from the translation of financial statements in foreign currencies and other changes.

Net current assets decreased by €276 million, from €571 million at January 1, 2018 to €295 million at December 31, 2018.

Provisions for employee benefits amounted to €208 million, an increase of €9 million compared to January 1, 2018.

Assets held for sale amounted to €2 million and relate to a minority interest in Tecnoprojecto Internacional Projectos e Realizações Industriais SA.

As a result of the above, **net capital employed** decreased by €652 million,

reaching €5,195 million at December 31, 2018, compared with €5,847 million at January 1, 2018.

Shareholders' equity, including minority interests, amounted to €4,036 million at December 31, 2018, compared with €515 million at January 1, 2018. This decrease reflected the negative effect of the net result for the period (€410 million), the negative effect of change in the fair value measurement of derivatives hedging exchange and commodity risk (€82 million) from the negative effect of the purchase of minority interest (€64 million), the negative effect of dividend distribution (€8 million), compensated in part by the positive effect on shareholders' equity from the translation into euro of financial statements expressed in foreign currencies and other variations amounting to €49 million.

Net borrowings at December 31, 2018, stood at €1,159 million, compared to €1,296 million at January 1, 2018. During the year the cash flows generated and control over working capital and investments made it possible to absorb the disbursements for the purchase of the vessel Saipem Constellation, and for the debt payment to Sonatrach relating to the LPG arbitration award.

Analysis of net borrowings

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Financing receivables due after one year	-	-
Payables to banks due after one year	941	655
Bonds and payables to other financial institutions due after one year	1,988	1,991
Net medium/long-term borrowings	2,929	2,646
Accounts c/o bank, post and Group finance companies	(1,749)	(1,672)
Available-for-sale securities	(69)	(86)
Cash and cash on hand	(2)	(2)
Financing receivables due within one year	(2)	(32)
Payables to banks due within one year	147	260
Bonds and payables to other financial institutions due within one year	42	45
Net short-term debt (liquid funds)	(1,633)	(1,487)
Net borrowings (liquid funds)	1,296	1,159

The fair value of derivative assets (liabilities) is detailed in Note 30 'Derivative financial instruments'.

Statement of comprehensive income

(€ million)	2017	2018
Net profit (loss) for the year	(307)	(410)
Other items of comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
- remeasurements of defined benefit plans for employees	-	-
- change in fair value of investments with effects on OCI	-	(1)
- share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans	-	-
- income tax relating to items that will not be reclassified	(1)	-
<i>Items that may be reclassified subsequently to profit or loss:</i>		
- change in the fair value of cash flow hedges	297	(100)
- change in the fair value of financial assets, other than investments, with effects on OCI	(1)	(1)
- exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(176)	40
- income tax on items that may be reclassified subsequently to profit or loss	(73)	18
Other items of comprehensive income	46	(44)
Total comprehensive income (loss) for the year	(261)	(454)
Attributable to:		
- Saipem Group	(279)	(518)
- non-controlling interests	18	64

Shareholders' equity including non-controlling interests

(€ million)	
Shareholders' equity including non-controlling interest at January 1, 2018	4,551
Total comprehensive income for the year	(454)
Dividends distributed to Saipem shareholders	-
Dividends distributed by other subsidiaries	(8)
Purchase/sale of treasury shares net of fair value in the incentive plans	15
Purchase of non-controlling interests	(64)
Share capital increase net of charges	-
Other changes	(4)
Total changes	(515)
Shareholders' equity including non-controlling interest at December 31, 2018	4,036
Attributable to:	
- Saipem Group	3,962
- non-controlling interests	74

Reconciliation of statutory net result and shareholders' equity to consolidated net result and shareholders' equity

(€ million)	Shareholders' equity		Net result	
	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018
As reported in Saipem SpA's financial statements	3,534	3,141	(496)	(326)
Difference between the equity value and results of consolidated companies and the equity value and result of consolidated companies as accounted for in Saipem SpA's financial statements	589	544	219	32
Consolidation adjustments, net of effects of taxation:				
- difference between purchase cost and underlying book value of shareholders' equity	794	739	(3)	(58)
- elimination of unrealised intercompany profits (losses)	(282)	(258)	32	29
- other adjustments	(36)	(130)	(59)	(87)
Total shareholders' equity	4,599	4,036	(307)	(410)
Non-controlling interests	(41)	(74)	(21)	(62)
As reported in the consolidated financial statements	4,558	3,962	(328)	(472)

Reclassified cash flow statement ⁽¹⁾

Saipem's reclassified cash flows statement derives from the statutory cash flow statement. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory cash flow statement) and in net borrowings (deriving from the reclassified cash flows statement) that occurred between the beginning and the end of the year. The measure enabling such a link is represented by the free cash flow, which is the cash in excess of capital expenditure requirements. Starting from free cash flow it is possible to determine either: (i) changes in

cash and cash equivalents for the year by adding/deducting cash flows relating to financing debts/receivables (issuance/repayment of debt and receivables related to financing activities), shareholders' equity (dividends paid, net repurchase of treasury shares, capital issuance) and the effect of changes in consolidation and of exchange differences, or (ii) changes in net borrowings for the year by adding/deducting cash flows relating to shareholders' equity and the effect of changes in consolidation and of exchange rate differences.

(€ million)	2017	2018
Net profit for the year	(328)	(472)
Non-controlling interests	21	62
<i>Adjustments to reconcile cash generated from operating profit before changes in working capital:</i>		
Depreciation, amortisation and other non-monetary items	784	840
Net (gains) losses on disposal and write-off of assets	(2)	4
Dividends, interests and income taxes	282	279
Net cash generated from operating profit before changes in working capital	757	713
Changes in working capital related to operations	77	259
Dividends received, income taxes paid, interest paid and received	(375)	(261)
Net cash provided by operating activities	459	711
Capital expenditure	(262)	(485)
Investments and purchase of consolidated subsidiaries and businesses	(25)	(27)
Disposals	17	1
Other cash flow related to capital expenditures, investments and disposals	1	-
Free cash flow	190	200
Borrowings (repayment) of debt related to financing activities	(13)	(40)
Changes in short and long-term financial debt	(207)	(172)
Sale (buy-back) of treasury shares	(27)	-
Cash flow from capital and reserves	(2)	(79)
Effect of changes in consolidation and exchange differences	(82)	14
NET CASH FLOW FOR THE YEAR	(141)	(77)
Free cash flow	190	200
Sale (buy-back) of treasury shares	(27)	-
Cash flow from capital and reserves	(2)	(79)
Exchange differences on net borrowings and other changes	(7)	16
CHANGE IN NET BORROWINGS	(154)	137

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 64.

Net cash provided by operating activities positive for €711 million net of the negative cash flow from capital expenditures and other investment related changes €511 million, generated a positive cash flow of €200 million.

Cash flow from capital and reserves showed a negative balance of €79 million, related to the payment of dividends and the effect from the purchase of non-controlling interests. Exchange rate differences on net borrowings produced a net positive effect of €16 million.

Net borrowings therefore decreased by €137 million.

Net cash generated from operating profit before changes in working capital of €713 million related to:

- the net result for the year of -€410 million;
- depreciation, amortisation and impairment of tangible and intangible assets of €811 million, the effect of the valuation of investments accounted for using the equity method of €87 million, the change in the provision for employee benefits of €8 million partly offset by the exchange rate differences and other changes for €66 million;
- net gains on the disposal of assets of €4 million;

- net finance expense of €85 million and income taxes of €194 million. The positive change in working capital related to operations of €259 million was due to financial flows of projects underway. Dividends received, income taxes paid, interest paid and received during 2018 were negative for €261 million and were mainly related to income taxes paid net of tax credits and to interest paid. Capital expenditure during the year amounted to €485 million. The breakdown by division is as follows: Offshore Engineering & Construction (€345 million), Offshore Drilling (€66 million), Onshore Drilling (€46 million) and Onshore Engineering & Construction (€28 million). Additional information regarding investments made in 2018, are reported in the comment to the operating review.

Summary of the effects deriving from the application of IFRS 9 and IFRS 15

As of January 1, 2018, the new accounting standards IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers' entered into force; in the first application of the new provisions, Saipem took advantage of the possibility of recognising the effect connected to the retroactive restatement of the values in shareholders' equity at January 1, 2018, with regard to the entries existing on that date, without restating the previous financial years under comparison.

(€ million)	Published Dec. 31, 2017	Effect of adopting IFRS 9	Effect of adopting IFRS 15	Jan. 1, 2018
Net tangible assets	4,581	-	-	4,581
Net intangible assets	753	-	-	753
	5,334	-	-	5,334
Investments	141	-	-	141
Non-current assets	5,475	-	-	5,475
Net current assets	619	(28)	(20)	571
Provision for employee benefits	(199)	-	-	(199)
Net capital employed	5,895	(28)	(20)	5,847
Shareholders' equity	4,558	(28)	(20)	4,510
Non-controlling interests	41	-	-	41
Net borrowings	1,296	-	-	1,296
Funding	5,895	(28)	(20)	5,847
Leverage (net borrowings/shareholders' equity + non-controlling interests)	0.28	-	-	0.28

Key profit and financial indicators

Return On Average Capital Employed (ROACE)

Return On Average Capital Employed is calculated as the ratio between adjusted net profit (loss) of the year before minority interest, plus net finance charges on net borrowings less the related tax effect and net average capital employed. The tax rate applied on finance charges is 24%, as per the applicable tax legislation.

Return On Average Operating Capital

To calculate the Return On Average Operating Capital, the average capital employed is netted of investments in progress that did not contribute to net profit for the year. No significant investment in progress in the two years compared.

		Dec. 31, 2017	Dec. 31, 2018
Net result	(€ million)	(307)	(410)
Exclusion of net finance expense (net of tax effect)	(€ million)	(169)	165
Unlevered net result	(€ million)	(138)	(285)
Capital employed, net:	(€ million)		
- at the beginning of the period		6,335	5,847
- at the end of the period		5,895	5,195
Average capital employed, net	(€ million)	6,115	5,521
ROACE	(%)	(2.26)	(5.16)
Return On Average Operating Capital	(%)	(2.26)	(5.16)

Net borrowings and leverage

Saipem management uses leverage ratios to assess the soundness and efficiency of the Group's capital structure in terms of an optimal mix between net borrowings and shareholders' equity, and to carry out

benchmark analyses against industry standards. Leverage is a measure of a company's level of indebtedness, calculated as the ratio between net borrowings and shareholders' equity, including non-controlling interests.

	Dec. 31, 2017	Dec. 31, 2018
Leverage	0.28	0.29

Non-GAAP measures

Some of the performance indicators used in the 'Directors' Report' are not included in the IFRS (i.e. they are what are known as non-GAAP measures).

Non-GAAP measures are disclosed to enhance the user's understanding of the Group's performance and are not intended to be considered as a substitute for IFRS measures.

The non-GAAP measures used in the 'Operating review' are as follows:

- cash flow: the sum of net profit plus depreciation and amortisation;
- capital expenditure: calculated by excluding investments in equity interests from total investments;
- EBITDA: a useful measure for evaluating the operating performance of the Group as a

whole and of the individual sectors of activity, in addition to operating profit. EBITDA is an intermediate measure, which is calculated by adding depreciation and amortisation to operating profit;

- non-current assets: the sum of net tangible assets, net intangible assets and investments;
- net current assets: includes working capital and provisions for contingencies;
- net capital employed: the sum of non-current assets, working capital and the provision for employee benefits;
- funding: shareholders' equity, non-controlling interest and net borrowings;
- special items: (i) non-recurring events or transactions; (ii) events or transactions that are not considered to be representative of the ordinary course of business.

RESEARCH AND DEVELOPMENT

The Oil & Gas industry needs to renew its focus sharply in order to cope both with near and with future challenges. In this context, innovation is an advantage for strengthening and consolidating the Company's competitive positioning, both now and in the future in both time-spans. The new Innovation model at Saipem is just the synthesis between the urgency to implement concrete solutions in the short term, mostly driven by current commercial projects, and the need to develop novel solutions reflecting the evolving macro-scenarios, especially the energy scenario. Thus, technology innovation plays a strategic role in Saipem, favouring its transition to an 'Innovative Global Solution Provider' in the energy sector.

Saipem's approach to technology and innovation can be seen in two dimensions: the first 'evolutionary' and the second 'disruptive'. The 'evolutionary' innovation consists of all the technologies we use every day in our projects and that evolve with the industry (e.g. digitalisation) and our know-how aiming at reducing costs and time schedules of Company projects. 'Disruptive' innovations are those that significantly alter the way business or entire industries operate; often times, these technologies force companies to alter the way they approach their business. This dimension will drive Saipem through the future. This innovation is developed in Saipem both internally, with our 'Innovation Factory' that promotes an innovative and collaborative culture throughout and outside the company, and enlarging this network through partnerships and, externally through open innovation joint projects with major technological players, academic spin-offs, start-ups or their incubators.

Within the **Offshore E&C Division** specifically, technologies integrate and enable the business strategy as they increase: a) the efficiency of investments for subsea reservoir development for clients (CAPEX) and their costs (OPEX); b) execution efficiency in projects for clients; c) opportunities for diversification or transformation of the business, both inside and outside the Oil & Gas value chain.

A key element to increasing efficiency is the ability to propose, from project inception, innovative subsea field architectures and cost effective solutions to our clients. Saipem continues to develop new

technologies that allow moving part of the processes currently placed at surface to the seabed, and/or connecting them to facilities positioned at ever-greater distances.

The backbones of such architectures are subsea pipelines and, in particular, those heated electrically by means of the already qualified 'Heat Traced Pipe-in-Pipe' technology, or by means of a local heating station, currently under testing. Saipem is proposing these proprietary technologies in optimised 'Long Subsea Tie-Back' systems to clients, together with new concepts for subsea storage of chemicals (directly injected into the pipelines) and to some subsea process technologies, in order to guarantee the flow of products over long distances.

Saipem has recently signed several partnerships with clients and providers of key technologies to be integrated into the so-called 'subsea factories' of the future. Among these, an exclusive agreement with Curtiss-Wright for the development, construction, and testing of a barrier fluid-less subsea pump. This is a fundamental step for the industrialisation of desulfation technology SPRINGS™ (developed together with Total and Veolia) and of other proprietary subsea processing technologies.

This development also fits with the 'All-Electric' vision for fields, made of subsea infrastructures not requiring complex electro-hydraulic umbilical to actuate the valves in favour of just electric lines and optical fibres. As part of the Joint Development Agreement signed in 2017 with Siemens, the design and verification of the 'Open Framework' subsea control system components continued, some of which reached an advanced qualification level during the year. Similarly, new agreements have been signed with Wittenstein, for the development of underwater electric actuators, with ATV, for the development of high-cycling valves (now qualified), and with Process Instruments for the joint development of sulphate metres in water.

Saipem has also started the qualification process (with DNV-GL) of an innovative proprietary telescopic joint that optimises the underwater connection and disconnection of the 'subsea factory' modules, facilitating their maintenance activities.

Regarding the subsea processes still under development, Petrobras' conceptual study named Hi-Sep™ on the subsea separation of

dense-phase CO₂ was successfully completed, so much so that a next phase is being defined. Furthermore, some of the leading Oil Companies are discussing the third phase of the joint development project (JIP) of the proprietary technology 'Spoolsep' with Saipem, a step that would bring this system, for the separation of water produced together with oil, to a level of maturity close to commercialisation.

As the increase in the number of functions and operations assigned to subsea plants leads to increasingly complex fields, Saipem is looking to integrate the entire value chain, by proposing products, services and technologies that support the entire lifecycle of a client's field, from initial development to their decommissioning ('Life of Field'), and improve efficiency on operating costs. Indeed, it is with the new 'Hydrone' platform that Saipem projects itself into the future of subsea robotics for operations assistance. It is in this area that Saipem and Shell have recently signed an agreement for the industrial development and commercialisation of 'FlatFish', which is used to inspect subsea structures and pipelines.

During 2018, Saipem further focused on the execution efficiency of offshore projects, both by bringing some proprietary technologies into the field and by increasing the portfolio of developing technologies.

The most evident benefits were found in sectors of pipe laying and in subsea field construction (the first two phases of the 'Zohr' project).

Furthermore, in 2018 the new Technological Centre in Ploiesti (Romania) prepared innovative solutions, to speed up welding of pipes in prefabrication, welding in firing line and the non-destructive control of 'clad' pipes, and to automate field joint coating processes. Investigations on high-productivity, single-pass techniques for thick pipes welding, such as Laser and Electron Beam continue.

Efficiency has also increased by extending the automation and digitalisation of production processes on board construction vessels or elsewhere. For this reason, Saipem has been involved for quite some time in an extensive innovation programme that is bringing initial results in the field. An example would be the automation of proprietary FJC (Field Joint Coating) systems that can be controlled remotely, and their digital replicas ('Digital

Twins'); systems for operations monitoring on 'Castorone' pipe-laying vessel, which can be replicated remotely; a system for automatic sorting and alignment of pipes in firing line; an initial prototype of a simulator for welders; a software suite to automate the subsea pipeline design; the project data integration on geo-localised grids, and more.

Execution efficiency also passes through a rigorous control of operational risks. The 'IAU' (Integrated Acoustic Unit) system, which controls the risk of flooding a sealine, has almost completed the qualification process with DNV-GL, and today Saipem is offering it on operating projects.

In the Decommissioning sector, Saipem successfully completed the dismantling of the 'BP-Miller' platform, with an unprecedented 'extended' lifting and transport technique, made possible also by the vessel motion monitoring and forecasting tools installed on board the S7000, and by real time 3D collision avoidance system to safely lift and manage massive pieces with extremely tight tolerances.

The **Onshore Drilling Division** addressed new digitalisation projects about a novel Drilling Performance Dashboard aimed at optimising the operative performance and an innovative Predictive Maintenance System which will optimise the productivity and the lifetime of the rigs.

The **Offshore Drilling Division** was mostly concentrated on the adoption of new drilling techniques, i.e. riser shape monitoring systems. In the field of digitalisation of drilling operations, in collaboration with Eni, a new portable virtual system was developed for immersion and operation training simulations in order to improve rig and equipment knowledge and operation know-how, support and safety awareness. Saipem's main contribution was in the full virtualisation of Scarabeo 8.

The **Onshore E&C Division** and **XSIGHT Division** were mainly focused on improving the overall value proposition to clients through the capacity to design plants with higher performances and availability while integrating them with the surrounding environment. This is especially reflected in Saipem's innovative efforts in gas monetisation, taking advantage of the solid expertise on the subject to maximise the efficiency of the entire value chain.

Specifically, a multi-year plan is in progress to keep the proprietary fertiliser production technology 'Snamprogetti™ Urea' at the highest level of competitiveness. Ongoing activities include:

- improving resistance to corrosion and cost reduction through the development of novel construction materials, either by traditional or additive manufacturing;
- enlarging our portfolio of high-end solutions with the introduction of the Snamprogetti™ SuperCups trays, which drastically increase the mixing efficiency of the reactant phases, thus optimising the product conversion rate;
- providing complete solutions to operating plants as represented by the recent acquisition of the Tuttle Prilling Bucket technology, a leading device adopted worldwide in Urea prilling towers for the production of high quality prills for a wide range of plant capacities;
- improving efficiency in Ammonia-Urea complexes by integrating technologies.

Continuous efforts in the LNG (Liquefied Natural Gas) field are ongoing:

- to define a proprietary small scale liquefaction and re-gasification of natural gas. This small scale product shows good promise for becoming a flexible tool to support sustainable mobility in the near future;
- to develop Floating LNG (FLNG) the Company has several solutions, including Liqueflex™, a new proprietary turbo-expanded cycle technology that uses natural gas as the main refrigerant;
- finally, Moss Maritime recently achieved pioneering experiences in the market of conversion of LNG carriers to FLNG units.

A comprehensive programme dedicated to onshore pipelines is on-going for improving and optimising several different aspects of the design and construction procedure. In particular, the Smart Pipeline concept is pursued by robotised application of optical fibres for continuous monitoring over the whole pipeline or specific sections (PIMS - Pipeline Integrity Monitoring System). Any critical situations in terms of temperatures, local strains, leakages are promptly detected and mitigating action may start accordingly.

In the mid-long term, targeting progressive decarbonisation of energy and overall CO₂ reduction, Saipem is pursuing several and diversified actions:

- *CO₂ Management*: the Company is building a technology portfolio to deal either with purification of natural gas from reservoirs with high content of CO₂ or capture of CO₂ from combustion flue gas in power generation and industrial processes;

- *Reduction of Gas Flaring* (mostly natural gas, emissions): a few specific activities have been carried out with relation to real cases; innovative solutions are being developed;
- *Hybrid solutions*: application of novel approaches to optimise integration of renewables/energy storage concepts with fossils exploitation in O&G operations, both onshore and offshore;
- *Circular Economy*: the exploitation of innovative technological solutions to sustainably treat waste or residual/opportunity feedstocks from the O&G industry (or other industries, in perspective including plastics recycling), with their consequent valorisation to energy and/or valuable products, is becoming an important asset.

In the above context, and with particular reference to the carbon capture technologies, the following developments should be mentioned:

- the license agreement signed with ITEA (a Sofinter Group company) to produce, through ITEA's proprietary ISOTHERM Pwr® 'Flameless' Oxy-Combustion Technology, steam, electricity and pure CO₂ by flexible use of low ranking fuels such as waste, heavy oils, pet coke and other feedstock;
- the joint development agreement signed with Sustainable Energy Solutions (SES), a US start-up company specialised in cryogenic recovery of CO₂, for the development of the SES application of proprietary Cryogenic Carbon Capture™ (CCC) technology for treating natural gas with a high-CO₂ content. The captured CO₂ can be used in many applications, including enhanced oil recovery (EOR) and biofuels or chemical production.

In the onshore renewable energy sector, the technological efforts are focused mainly on bio-refineries, concentrated solar and geothermal energies: in this regard, a number of solutions are being developed, also in synergy with new commercial initiatives.

In the offshore renewables sector, boasting the successful installation of the first floating wind farm in the world (Hywind Scotland project for Statoil), Saipem is pursuing several new solutions for advanced wind farms, together with a novel concept for an 'offshore floating solar park', developed by Moss Maritime. Saipem is also devoting innovation efforts to novel concepts for wind farms, emerging marine technologies such as new ocean energy storage and hydrogen as a clean energy carrier produced by water with renewable energy.

As regards environment protection, and particularly 'Oil Spill Response', Saipem has

completed, in Trieste, the most technologically advanced structure to tap an underwater oil well in uncontrolled blow-out. The Offset Installation Equipment allows for rapid resolution of environmental disasters such as that of the Deepwater Horizon platform in the Gulf of Mexico in 2010.

In the overall framework of technological development activities, Saipem has filed 29 new patent applications in 2018.

With regard to Process Innovation, Saipem has consolidated the initiative regarding its new incubator of ideas and prototyping laboratory the 'Innovation Factory', aimed at testing solutions to address the challenges of the sector through the adoption of new technologies (digital, in primis) and new methodologies by changing the way Saipem works, not only to increase efficiency and productivity but also to discover and pursue new value propositions.

Top management-defined strategic issues, agile approach, rapid prototyping, digitalisation, cross-industry open-innovation and promotion of innovative thinking internally are the key factors for going after success. Some of the prototypes designed have already been directly tested in the field with interesting results; for example, the issues tackled concerning the track & trace of assets and materials for the digitalisation of construction activities, the potential of using drones on land and in the air at Saipem sites and the application of vision technology to specific activities on the offshore fleet vessels.

A new digital collaborative and data-centric methodology for the whole project life-cycle management ('XDIM™') has been conceived.

In addition to the activities of the 'Innovation Factory', specific digital programmes are now under development in the divisions of the Company. The Offshore Drilling and Onshore Drilling divisions are mostly concentrated in the field of digitalisation of operations; XSIGHT Division, in addition to the full development of XDIM™, is investigating solutions for Industrial Analytics to provide decision making support to owners of operating plants, allowing for better planning of productivity and maintenance optimisation with cost reduction and reducing unforeseen plant and equipment shut downs which can be turned into shorter and fewer plant stops.

In light of work done together with universities, the five-year partnership agreement signed with the Politecnico di Milano deserves to be highlighted, which includes the creation of a joint research centre, contracts for research activities on specific topics, and technological support activities.

Finally, it is worth mentioning that the 'Tech Days' event was held in Cartagena on board the Saipem 7000 where the Company presented to major players in offshore wind energy and media representatives the technologies and the ongoing innovation effort to support the growing role of Saipem in the renewable energy sector within the context of a sustainable business model. Another 'Technology and Innovation Day' was held in Algiers to celebrate 50 years of Saipem's presence in the North African country, where the Company's divisions presented Saipem's capabilities as a 'global solution provider', driven by a continuous technological development to 150 representatives of Sonatrach.

HUMAN RESOURCES, QUALITY

Human Resources Management

The policies for the management and development of its human resources are a lever Saipem uses for the valorisation of human capital. All resources are managed following principles of fairness and transparency, in full compliance with the national and international regulations, with contracts, with company procedures and practices, as well as local customs and traditions.

In 2018, the Company launched the 'Flexibility' Smart Working Programme, which aims to build a new working model that can best take advantage of opportunities for the work/life balance of its resources, while at the same time effectively coping with new business challenges and maximising company performance.

More specifically, the project will ensure a more efficient working model, oriented at the achievement of results and able to ensure the nurture of the people, a strengthening of widespread leadership and company policies aimed at rewarding initiative, cooperation and skills through accountability and participation in achieving the objectives. Additional levers of action are: digital culture aimed at sharing knowledge and experiences, at the usability of data, through the optimisation of the use of tools for accessing information and the introduction of dynamic spaces, as enabling factors for collaboration, operational efficiency, and the pursuit of results. With the continuing view to seeking a better work/life balance, were reconfirmed in 2018 the initiatives related to more flexible work hours during spring and summer period, which paved the way for a different approach to time management and to the relationships between managers and employees, guaranteeing, at the same time, the rationalisation of company costs.

Welfare initiatives are a competitive edge for attracting and retaining personnel and they focus on:

- providing support to families;
- health and well-being;
- leisure and mobility;
- social security;
- work life and workplace environment;
- consumer promotions and agreements using routine practices, methods and instruments that can be adapted to different and specific needs that may arise from different geographical contexts.

Taking into consideration the importance of the population of expatriate personnel, equal to one third of the total, the processes that provide support to international mobility represent a critical factor for success through which Company pursues objectives of integrating and developing personnel, the transfer of critical know-how and the creation of long-term value with regard to the capitalisation of skills and experience gained on projects can be pursued.

In order to ensure continuous and increasingly punctual alignment with market trends and developments while at the same time ensuring practices and methods of approach that take into account of increasingly challenging operating conditions and geographical contexts, an project was launched to review international mobility policies with the goal of generating attraction and retention of the most critical professional skills.

In this light, the Company has chosen to adopt an approach, based on aspects shared by the divisions, which is able to maintain processing and management regulations for expatriate personnel for the whole Group that are uniform but at the same time allows for guaranteeing competitiveness in every business taking into consideration specific variations in each sector.

Lastly, during the year there was a strong focus on the quali-quantitative mix of skills, and in light of the changes in regulatory scenarios, it was seized the opportunity to adjust the policies related to bring the employee to retirement, in order to provide strong support to the generational change, but also to ensure a good transfer of critical know-how to younger resources.

Compensation

In line with the Saipem Strategic Plan, the 2018 Compensation Policy guidelines include challenging performance targets that allow guidance, monitoring and evaluation of business and profitability development activities, as well as monitoring, development and enhancement of business skills that are either critical or significant to reach the objectives set in the corporate strategic plan.

In harmony with the new divisional organisational model, the short-term incentive system was reviewed, in order to guarantee balance between company and division performance, improvement of the system's

rewarding capacity and simplification of the same, in order to further encourage everyone's effort towards achieving annual division and Saipem targets. The Company has therefore assured, for the entire managerial population, the definition of new targets for 2018, in line with the challenging objectives declared to the market in terms of free cash flow and EBITDA, declining them at divisional level. Furthermore, in order to guarantee the strengthening of the link between sustainable performance over time, value creation and management remuneration, specific objectives relating to each Division have been defined. These objectives represent the priority for 2018 and impact following a top-down process addressed to all organisation levels.

The 2018 Remuneration Policy, whose primary tools and objectives are defined in the 'Remuneration Report', confirms its alignment with the Governance model adopted by the Company and the recommendations of the Self-discipline Code. The Policy's aim is to attract and retain high-profile professional and managerial resources, and align the priority objective of value creation for the shareholders in the medium-long term with the interests of management.

The '2018 Remuneration Report' was drawn up in compliance with Article 123-ter of Italian Legislative Decree No. 58/1998 and Article 84-*quater* of Consob Issuer regulations and was approved by the Board of Directors of Saipem on March 5, 2018, with a favourable vote later expressed by the Shareholders'

Meeting on May 3, 2018 (for further details, see the Remuneration Report published on the Saipem site).

Following the report of company objectives and management performance assessments for 2017, the Company has awarded individual annual monetary incentives as provided for by the Remuneration Policy proposals for 2018.

Considering the context of a challenging business, full attention has been paid to defining the annual remuneration policies for the entire population, aiming to selectively reward those skills that have a greater influence on business results, maintaining the firm commitment to reducing costs while at the same time retaining the distinctive competencies and professional skills which most heavily affect business results and are able to offer a distinctive and decisive contribution to the success of the corporate strategy.

In order to guarantee resource retention, the Company has oriented remuneration policy guidelines with a long-term perspective and the variable incentives have been adopted on a selective basis, in favour of long-term deferred payment instruments, confirming the structure of the remuneration package envisaged in 2017. Furthermore, particular emphasis was given to generational turnover and balance, in order to achieve equilibrium between young and old resources, with particular attention to the transfer of know-how, and with the aim of improving company performance, creating new opportunities and attracting different talents.

	(units)	Average workforce 2017	Average workforce 2018
Offshore Engineering & Construction		14,041	12,266
Onshore Engineering & Construction		12,665	12,454
Offshore Drilling		1,661	1,722
Onshore Drilling		4,779	4,503
Staff positions		790	849
Total		33,936	31,794
Italian personnel		5,932	5,703
Other nationalities		28,004	26,091
Total		33,936	31,794
Italian personnel under open-ended contract		5,693	5,504
Italian personnel under fixed-term contract		239	199
Total		5,932	5,703

	(units)	Dec. 31, 2017	Dec. 31, 2018
Number of engineers		5,513	5,559
Number of employees		32,058	31,693

For the Divisions, retention plans and project incentives were launched to support business strategy and guarantee the motivation of resources with technical-specialist and/or developing skills to achieve objectives of the strategic plan and project targets.

In July, Saipem implemented the third and last promised allocation of the Share-Based Long-Term Share-Based Incentive Plan, for managers, for the three-year period 2016-2018, introduced in order to pursue the long-term goals of shareholders, to strengthen management's participation in business risk and to promote the improvement of company performance. The Plan entails the free-of-charge allocation of ordinary Saipem SpA shares upon achievement of three-year goals measured through a business objective (net financial position), as well as goals tied to trends relating to Saipem shares compared to competitors (relative Total Shareholders Return). At their meeting of July 24, 2018, the Board of Directors set at 7,555,655 the number of treasury shares to be bought back to cover the 2018 allocation of the Plan.

In consideration of the expiry of the 2016-2018 LTI Plan, as well as the experience gained in the last 3 years of the current plan, a process was also started to revise the Long Term Incentive Plan for the three year period 2019-2021, with the aim of simplifying and improving the plan, ensuring alignment with market practices and strengthening the alignment between the creation of value for shareholders and the management incentive plan and adherence to the expectations of investors and Proxy Advisors.

Quality

With regard to the management of Quality activities, with a view to the continuous improvement of the processes, the following objectives were achieved:

- alignment of the Quality System of Saipem SpA to the new ISO 9001-2015;
- maintaining the ISO 9001 multi-site certification to cover Saipem SpA and 15 subsidiaries;
- maintaining the ISO 3834 certification for Onshore pipelines and Arbatax Fabrication Yard;
- implementation of the Quality Assurance and Control activities in the projects;
- management of continuous improvement at the Corporate and Division level;
- updating of Lessons Learned and Customer Satisfaction methodologies to the new divisional structure and their implementation on all projects;
- measurement of the Performance Indicators (PI) and, more generally, implementation of systems for monitoring and reporting of quality activities of branches/subsidiaries (at company and project level);
- updating the planning and implementation, both at Corporate and Division levels, of 'Quality System Internal Audits';
- survey of the 'Cost of non Quality' on selected executive projects;
- optimisation of methodologies and tools to support the Quality and Top Management functions of the various Saipem companies for the effective management of the Group's Quality System.

INFORMATION TECHNOLOGY

In 2018, the Digital/ICT function consolidated the company organisation which emerged from the IT Adaptive Sourcing project based on three components: the Corporate Digital function, focused on digital transformation; the Corporate Services Centre function, to provide ICT services; finally, for each division, a new function to oversee ICT demands from the business. This structure places a greater emphasis on the digital transformation initiatives of the company, concentrating the ability to supervise the maintenance and evolution of the company information system in the Services Centre.

In strategic terms, the IT Adaptive Sourcing project has fundamentally revised the IT services provided, with the aim of reducing unit costs and at the same time launching the introduction of new technical and architectural solutions. The project, launched in 2017, brought profound change starting in 2018 in the structure of ICT sourcing; Saipem has selected three main technological and service partners, both as individual companies and as a grouping of companies, by defining contracts with Tata Consulting Services, Accenture, DXC with Orange and Accenture with Orange, to cover a wide range of infrastructural and application services. The scope of these contracts is all encompassing as it intends to cover all the offices of the Saipem Group. The service baseline provides a significant cost reduction. At the same time, the primary cloud services provider was selected through a tender. The contract was assigned to Microsoft Azure.

The first year of operation of the new IT Adaptive Sourcing structure was characterised by the Transition and Transformation plan. The transition led to the replacement of previously used vendors with those selected by the project, while the transformation actions aimed at renewing the technical architectures and the main solutions supporting the new service model. The primary distinctive elements were the adoption of a software-defined network architecture, the detailed virtualisation of computing and storage resources, the adoption of a hybrid approach to the Cloud, with a balanced allocation of resources between private Cloud and public Cloud, the introduction of ServiceNow as a platform for service management and lastly the use of machine learning technologies to automate some repetitive system management tasks.

Among the innovative characteristics of the contract is the creation of the supply ecosystem concept. This should ensure that Saipem's needs are covered thanks to the effort to cooperate made by the vendors in light of supporting necessary actions both for the single area and for those activities that intrinsically require cooperation and integration.

Additionally, a roadmap for digital transformation was outlined and planned, listing the primary initiatives for digital change being pursued in various areas of the corporate activities.

Concerning the technical results obtained in the period, in the SAP R/3 field some roll-out activities were carried out supporting the business. Following the detachment from Eni, the applications solutions structure for Saipem Finance was also consolidated based mainly on the SAP FSCM (SAP Financial Supply Chain Management) module which optimises the financial information flows and interfaces with the capital market transactions systems. The Saipem Run Digital project was also launched to enhance the possibilities for innovation of the upcoming transition from SAP R/3 to SAP4HANA which will be a major project in 2019.

The general plan that Saipem set up to achieve the complete separation from Eni's IT systems has essentially been completed. Faced with the need to maintain some functionalities related to the HR, which will be reviewed in the future, the programme addresses the last steps in relation to the revision of the telephone service for ships, in order to bypass the Eni switchboard.

In the Procurement field, the adoption of the SAP/Ariba Cloud platform has reached an advanced phase of dissemination. Having introduced the Procure-to-Pay function in the catalogue last year for the purchase of spare parts and consumables for the business area, finalisation of management of the electronic bids for complex services is underway.

In the HR area, a project was completed for the adoption of Oracle Fusion HCM, as a natural cloud-based evolution of the current IT system. Various functions regarding Talent Management have been migrated to Oracle HCM.

ICT initiatives in the business area have been set up to revolve around the strategic need to develop a data-centric approach and a complete digitisation of corporate work processes. Developments in the sphere of business were oriented on one hand towards the automation of processes, according to a transformation approach called Project Information Management, which was introduced as a joint initiative for company improvement and made available to the Division Engineering, Project Management, Quality and Construction functions, and on the other hand towards the enhancement of the company data assets, by adopting innovative Big Data solutions which have already been moved to Cloud Azure, in order to make use of storage scalability and computing power.

The outcome of initiatives carried out in the last 18 months is the identification of the PLM platform by Dassault Systemes as supplemental to project collaboration flows.

New initiatives have been started in the infrastructural area, in particular optimisation and management tools of the centralised infrastructures, using the technical tool Splunk for managing huge amounts of data, with which numerous areas of technical analysis were covered for correct analysis, configuration and management of IT systems. The experiments initiated with IT Adaptive Sourcing and the parallel development of methodologies and solutions to support smart working, have enabled the adoption of the Cloud e-mail service based on Microsoft's Office 365 collaboration suite. Migration is ongoing and will be completed during the first quarter of 2019.

Governance, compliance and security processes were all carried out successfully according to schedule during the year. Activities were carried out required by company control methodology for SAP and Oracle Peoplesoft HCM, as well as for main application software, allowing internal client managers to perform the controls required by company rules.

GOVERNANCE

The **'2018 Corporate Governance and Shareholding Structure Report'** (the 'Report') pursuant to Article 123-*bis* of the Consolidated Finance Act has been prepared as a separate document, approved by Saipem's Board of Directors on March 11, 2019, and published on Saipem's website at www.saipem.com under the section 'Governance'.

The Report was prepared in accordance with the criteria contained in the 'Format for Corporate Governance and Shareholding Structure Reporting - 8th Edition (January 2019)' published by Borsa Italiana SpA and in the Corporate Governance Code.

The Report provides a general and complete framework of the corporate governance system adopted by Saipem SpA. It also furnishes a profile of Saipem and the principles by which it operates, and gives information on the Company's shareholding structure and its adherence to the Corporate Governance Code including the main practices of governance applied and the key characteristics of the system of internal controls and risk management. Finally, it describes the composition and operation of the administration and control bodies and their committees, also in light of the diversity policies adopted by Saipem and equal access to the administrative and control bodies of

listed companies required by Law No. 120/2011, currently being applied for three consecutive terms. A detailed description of the roles, responsibilities and skills attributed to them is also provided.

The Report also provides information on procedures adopted with regard to 'Transactions involving interests held by Board Directors and Statutory Auditors and transactions with related parties', which can be consulted on Saipem's website www.saipem.com, under the section 'Governance', the communication policy adopted for institutional investors and shareholders, the processing of company information, and finally on the internal management and disclosure to third parties of Company documents and information concerning Saipem, with particular reference to inside information (Market Abuse - Internal Dealing and Insider Registry procedure).

The criteria applied for determining the remuneration of Directors are illustrated in the **'2019 Remuneration Report'**, drafted in accordance with Article 123-*ter* of Legislative Decree No. 58/1998 and Article 84-*quater* of the Consob Issuers Regulation. The Report is published in the 'Governance' section on Saipem's website.

RISK MANAGEMENT

Saipem implements and maintains an adequate system of internal control and risk management, composed of instruments, organisational structures and regulations designed to safeguard Company assets and ensure the effectiveness and efficiency of Company processes, reliable financial reporting, as well as compliance with laws and regulations, the Articles of Association and Company procedures. To this end, Saipem has developed and adopted an Enterprise Risk Management model that constitutes an integral part of its internal control and risk management system. This model has done this with the aim of obtaining an organic and overall vision of the main risks for the Company that may impact strategic and management objectives, ensuring greater consistency of methodologies and tools to support risk management, and strengthening awareness, at all levels, of the fact that an adequate assessment and management of risks may impact on the achievement of objectives and on the Company's value. The structure of Saipem's internal control system, which is an integral part of the Company's Organisational and Management Model, assigns specific roles to the Company's management bodies, Compliance Committees, control bodies, Company management and all personnel. It is based on the principles contained in the Code of Ethics and the Corporate Governance Code, as well as on applicable legislation, the CoSO Report and national and international best practices. Additional information on the internal control system and risk management, including details concerning its architecture, instruments and design, as well as the roles, responsibilities and duties of its key actors, is contained in the Corporate Governance Report and Shareholding Structure document. The Saipem Enterprise Risk Management model provides for the assessment of risks on a half-yearly basis both for the Group at the Corporate and Division level and for the main subsidiaries that are strategically relevant and that are identified on the basis of economic-financial and qualitative parameters. Risk assessment is performed by Saipem management through numerous meetings and workshops coordinated by the Corporate and Division Enterprise Risk Management functions. In particular, risk assessment is performed by assessing in detail the risk events that could impact Saipem's strategic and management objectives, taking into account the changes in the business and organisation model and company procedures,

developments in the external environment (specifically, political, economic, social, technological and legal aspects) and the relevant industry and competitors. Furthermore, Saipem has developed a process to monitor the Group's main risks on a quarterly basis through specific monitoring indicators on the evolution of risk and related mitigation activities. At the same time, on an annual basis, Saipem performs an interrelation analysis between the Group's main risks. Furthermore, starting from the analysis of materiality carried out by the Sustainability function (more information on this tool is present in the specific, detailed section within the 'Consolidated Non-Financial Statement'), a focus group was introduced to identify the main themes which, according to Saipem's senior managers, are the most risky for the Company and to assess the potential impact they may have. Saipem is exposed to strategic, operational and external risk factors that may be associated with both Saipem's business activities and the business sector in which it operates. The occurrence of such risks could have negative effects on the Company's business and operations and on the income, balance sheet and/or financial situation of the Group. The following are the main risk factors identified, analysed, assessed and managed by Saipem management. These risk factors have been assessed by management for each individual risk in the framework of drafting the half-yearly and, where deemed necessary, the possible liability was set aside in an appropriate fund. See the 'Notes to the consolidated financial statements' for information on liabilities for risks set aside. For a full description of the financial risks, please refer to the 'Notes to the consolidated financial statements - Financial risk management'.

1. Legal risks

Description and impact

The Group is currently a party in judicial, civil, tax and administrative legal proceedings. For a summary of the most significant cases, see the section 'Guarantees, commitments and risks - Legal proceedings' in the 'Notes to the consolidated financial statements'. Given the intrinsic and uneliminable risk that characterises legal proceedings, while the Company has carried out the necessary assessments, including on the basis of

applicable accounting standards, it is not possible to exclude the possibility that the Group might in future have to face payments for damages not covered by the legal fund, or which are covered insufficiently, or which are uninsured, or which are of an amount greater than the maximum sum that may have been insured. Furthermore, in relation to legal proceedings brought by the Company, should it not be possible to settle the disputes by means of negotiation, the Company may have to bear further costs associated with the length of court hearings.

In addition, the progress of legal proceedings exposes the Company to potential impacts on its image and reputation in the mass media or with customers and partners.

Mitigation

In order to maximise mitigation of these risks, Saipem makes use of specialised external consultants who assist the Company in judicial, civil, tax or administrative proceedings. Furthermore, the Board of Directors of Saipem monitors the evolution of the main legal proceedings in an active and continuous manner.

2. Risks related to commercial positioning

Description and impact

The market context is characterised by the persistence of volatile oil and gas prices in international markets. This condition influences the investment policies of the main clients, exposing Saipem to: (i) delays in the negotiation process and possible cancellation of commercial initiatives relating to future projects; (ii) cancellation and suspension of projects already under way (whether EPCI lump sum or Drilling and value added engineering services contracts); (iii) delays and difficulties in obtaining payment of contractual penalties provided for to indemnify the Company against the cancellation and suspension of such contracts; (iv) strengthening of the level of aggression in commercial strategies by competitors; (v) delays and difficulties in obtaining change orders for the scope of work requested by the client and executed by Saipem; (vi) delays and difficulties in renewing contracts for onshore and offshore drilling fleets prior to the expiry thereof and under economically advantageous terms and conditions; (vii) arbitration and international disputes in the most significant cases.

Therefore, Saipem is exposed to the risk of non-strengthening or weakening of its commercial positioning, which could particularly affect some product lines or specific geographical areas.

Mitigation

In order to mitigate any reduction in CAPEX investments in the Oil & Gas sector by its customers, Saipem has developed a new business model based on five divisions: Offshore Engineering & Construction, Onshore Engineering & Construction, Offshore Drilling, Onshore Drilling and XSIGHT, a new division dedicated to engineering and other high value services. In addition, the Company has taken steps to expand its customer and geographic market portfolio and look for additional or alternative business sectors such as: (i) maintenance and optimisation of existing rigs (MMOs) which are related to investments in OPEX in the Oil & Gas sector; (ii) rigs for renewable sources (wind, solar); (iii) construction of pipelines and water networks for civil use and other industries (Mining); (iv) dismantling of oil platforms, including plug & abandonment activities; (v) construction of high-speed railway lines; (vi) high added value engineering services in the energy industry in general (including renewable energy).

3. Risks related to strategic partners

Description and impact

Saipem carries out part of its business in partnerships, on the basis of contracts that include the joint liability of the Company in the event of breaches by partners or through the establishment of joint ventures with partners. Additionally, in some countries where it operates, the Group executes its own development programmes by means of joint venture agreements with local or international operators. In particular, the execution of business activities in partnership is common in the industry in order to strengthen the competitive and commercial positioning in some geographical markets and reference products.

When the client suffers damage due to a breach of contract by a partner, Saipem may be obliged to complete the activities originally assigned to the non compliant partners or to pay damages caused by its partners, without prejudice to the possibility of exercising its right to claim for damages against the non

compliant associated company. Furthermore, relations with these partners could be affected by possible changes in the political, economic and social context of the countries in which Saipem operates. In some circumstances, Saipem may not be able to maximise the profitability of contracts executed in partnership due to the lower control exercised on the various phases of the project carried out by the partner. In addition to the above, the possible lack of agreement with international or local partners regarding management methods of a project in the execution phase, could impact negatively on the capacity for development of certain projects on the part of the Saipem Group. Moreover, any deterioration in relations with these strategic partners could influence the management of bids, with the potential of negatively influencing the possibility of acquiring new contracts over time. Any interruption of said joint venture agreements or transfer of shares in mixed companies could result in the renegotiation of any previous contracts and possibly cause commercial and legal disputes with the relevant partners and clients.

Mitigation

In order to mitigate these risks, Saipem is committed to maintaining long-term positive relationships with various local and international partners and resolving any emerging disputes with its strategic partners for business in the countries in which it already operates or is commercially interested in operating. Moreover, Saipem implements a series of activities (for example, due diligence) aimed at identifying suitable partners to manage partnerships or joint ventures in compliance with the provisions of contracts with customers and company procedures in the various geographical area and business sectors in which Saipem operates.

4. Risks related to strategic positioning

Description and impact

The definition of strategies implemented by Saipem is based on analysis of macroeconomic and geopolitical scenarios of the relevant markets and the technological developments applied to them. Saipem also operates in an industry strongly characterised by strategic changes, also through the ever greater concentration of competitors via mergers and acquisitions operations and the creation of joint ventures and alliances locally or internationally. Inadequate forecasts of the evolution of these scenarios, as well as the incorrect or delayed implementation of identified strategies may

expose the Company to the risk of not being able to adjust the asset portfolio and therefore competitive positioning to changes in scenarios that are applicable to the reference industry.

Therefore, these risks potentially could result in a deterioration of strategic positioning within the sector, reducing market shares and the Group's margins.

In addition, this context can lead to the risk of concentration on some customers, in some geographic areas or on some products.

Mitigation

In order to ensure a strengthening of the Group's competitive positioning in line with the changing strategies of the industry and the ever-changing competition, Saipem has undertaken the 'Fit for the Future 2.0' programme which developed a divisional business model. Saipem avails itself of companies which are specialised in providing periodic analyses and estimates on relevant market segment trends and on macroeconomic, geopolitical and technological developments. Furthermore, the Company created the Sustainability, Scenarios and Governance Committee, which is responsible for assisting the Board of Directors in their review and development of scenarios in order to prepare strategies.

To ensure that Saipem's strategic positioning is strengthened, company management pursues business opportunities with a broad focus on the various customers in the energy sector (International Oil Companies, National Oil Companies, Independents, Utilities), with a global perspective on the reference markets and with a broad portfolio of products.

5. Risks related to technological development

Description and impact

The Engineering & Construction, Drilling and high value engineering sectors are characterised by the continuous development of the technologies, assets, patents and licences used therein.

Should the Company be unable to upgrade the technologies, assets, patents and licences required to improve its operational performance, its competitive position could be damaged and as a result cause changes or reductions to its short or long-term objectives.

Mitigation

In order to maintain its competitive position, Saipem updates the technology, assets and licences at its disposal, with the aim of aligning its offer of services to the current and future needs of the market.

Therefore, in addition to the extremely important experience of incremental research and development, which continues to be a key strategic point, Saipem has taken an initiative called the 'Innovation Factory', which is an incubator of ideas to develop 'disruptive' responses to face industry challenges. An emerging area of interest for the 'Innovation Factory' is linked to technologies aimed at increasing energy efficiency in operations and technologies in the decarbonisation of energy (more information in the specific section 'Research and development'). Saipem is supported by companies specialised in analysing the technological evolution in the reference market segments and the prospective solutions that customers may require in the following years (for example, in the renewable energy sector); lastly, the Group develops agreements of various kinds with companies that develop technological solutions in the energy industry and also in other industries (for example, in the field of digitisation).

6. IT risks

Description and impact

The execution and performance of Saipem's activities depend significantly on the IT system that has been developed over the years. In particular, the Group's IT system is exposed to potential cyber attacks which may have various purposes. Therefore, the non-functioning, ineffectiveness and inefficiency of IT systems can impact on business processes which may have economic and financial impacts and may damage the Company's reputation. Failure to develop innovative IT solutions by the Company could compromise the achievement of short or long-term objectives (more information in the specific 'Information technology' section).

Finally, Saipem will face the challenge and the resulting risks related to the valorisation of data in order to maintain and strengthen its competitive position in the Engineering & Construction, Drilling and engineering sectors with high added value.

Mitigation

Saipem has developed a new transformation project, called IT Adaptive Sourcing, with various objectives including the objective of taking the company through the digital transformation process and the containment of operating costs. To this end, Saipem has selected IT technological and service partners, launching an extensive review of the supply of IT services with the aim of introducing the concept of a supply ecosystem. This ecosystem concept should ensure that Saipem's needs are covered

thanks to the effort to cooperate made by the vendors in light of supporting necessary actions both for the single area and for those activities that intrinsically require cooperation and integration.

In addition, Saipem established various IT initiatives for the business environment, focusing on the strategic assumption of developing a data-centric approach for the business and a progressive and complete digitalisation of the company's work processes. In particular, business developments have been oriented towards the automation of processes and the enhancement of company data assets. Lastly, the Company has established governance activities, as well as compliance and security processes carried out by the IT department making the most of the most advanced uses of tested and consolidated IT security technologies and protocols. They have the goal of preventing and mitigating the risk of security threats regarding data processing by required by company IT systems. Specifically, for the prevention and mitigation of cyber attacks, Saipem relies on IT service vendors to constantly monitor the risk and to use main prevention and defence tools available on the market (more information in the specific 'Information technology' section).

7. Financial and tax risk

Description and impact

The volatility of market conditions and the possible deterioration of the financial position of clients can cause delays in both payments from the clients for the services provided based on the contractual provisions and acknowledgement and payment of change orders and claims relating to contracts under execution. These cash flow fluctuations may occur despite the fact that the contractor and client cooperate in the search for an agreement that satisfies both parties, with the aim of not compromising the correct performance of works and of not delaying the completion of the project. Therefore, Saipem is exposed to the deterioration of working capital exposing the Group to economic and financial impacts, as well as a deterioration of the reputation in the industry and in the financial markets.

Furthermore, the Group is exposed to numerous financial risks: (i) the market risk deriving from exposure to fluctuations in interest and exchange rates and exposure to the volatility of commodity prices; (ii) the credit risk deriving from the possibility of default by a counterparty; (iii) the liquidity risk deriving from the lack of adequate financial resources to meet short-term commitments; (iv) the downgrading risk deriving from the possibility of a deterioration in the credit rating assigned

by the main rating agencies (more information in the specific section 'Financial risks'). Furthermore, changes to national tax systems, tax incentives, rulings with tax authorities, international tax treaties and, in addition, risks associated with their application and interpretation in the countries where the Group's companies operate expose Saipem to tax risks (more information in the specific section 'Financial risks').

Mitigation

The Company has equipped itself with various techniques that it implements beginning from the negotiation phase with the aim of obtaining the most favourable conditions, such as contractually agreed advance payments, and of monitoring its contracts through stringent procedures to obtain the certifications necessary to proceed to invoicing, or by constant reporting to the client of all changes to the contract or to project execution, so as to maintain positive or neutral cash flows during the various phases project execution.

The management of financial risks (market risk by exchange rate, interest rate, commodity, credit risk, liquidity risk, downgrading risk) is based on Guidelines issued centrally with the aim of standardising and coordinating the policies of the Saipem Group regarding financial risks (more information in the specific section 'Financial risks').

Saipem constantly monitors changes in tax regulations and compliance with them in order to minimise the impacts due to its operating activities in all countries of interest through internal resources and tax consultants.

8. Risks related to profit margins

Description and impact

The Company operates in the highly competitive sector of services for the Oil & Gas industry, an industry which is significantly influenced by the trend in the price of oil in international markets, determining an impact on the demand for services offered by the Company and the margins associated with them. For this reason, the Oil & Gas services industry has featured increasing competition on prices for contracts known as lump sum turnkey in Offshore and Onshore Engineering & Construction services and for rates of vessels in the Offshore and Onshore Drilling market.

Specifically, the preparation of bids and the determination of price are the outcome of an accurate, precise and timely estimation exercise that involves various company departments and which is further integrated by a risk assessment to cover the areas of uncertainty inevitably present in each bid

(so-called contingency). Despite these efforts made by Saipem, over the life cycle of the contract the costs, revenues and, consequently, the margins that the Company realises on lump sum contracts, could vary significantly compared to the sums originally estimated for many reasons linked, for example, to: (i) bad performance/productivity of vendors and subcontractors; (ii) bad performance/productivity of Saipem's workforce; (iii) changes in working conditions (so-called change order) not acknowledged by the customer; (iv) worse weather conditions than those anticipated against the statistics available at the time; (v) a rise in the price of raw materials (e.g. steel, copper, fuel, etc.).

All of these factors in addition to other risks inherent in the sectors in which Saipem operates may imply additional costs, lost revenue and the subsequent reduction in margins from those originally estimated, leading to a decrease, perhaps even a significant one, of profitability or to losses on projects. The result of such significant differences could worsen the Group's economic-financial results and damage the Company's reputation in the relevant industry.

Mitigation

To align its cost and competitive profile to the current oil and gas price scenario, the Company is implementing a new business model based on the 'Fit for the Future 2.0' programme whose various initiatives also envisage rationalisation of structural, fabrication yard and vessel costs. In addition, in the current price of oil market scenario, the Company is committed to applying the most advanced industry best practices and to identifying and implementing various new initiatives and solutions to reduce its costs through more efficient processes and technologies.

9. Risks related to human resources

Description and impact

The Company depends to a significant degree on the professional contribution of key personnel and highly specialised individuals. By key personnel is meant 'Senior Managers with strategic responsibilities' (further information can be found in the specific detailed section in the '2019 Remuneration Report'). By highly specialised individuals, on the other hand, is meant personnel who, on the basis of their skills and experience, are vital to the execution of projects and to the growth and development of Saipem. If this relationship between the Company and one or more of the resources mentioned should be interrupted for any reason, there are no guarantees that the Company can

restore it quickly using equally qualified individuals who can ensure the same operational and professional contribution in the short term.

The breaking off of relations with one of the key figures, the inability to attract and retain highly qualified personnel and competent management personnel, or to supplement the organisational structure with individuals capable of managing the growth of the Company, could have negative effects on Saipem's future business opportunities and projects in the execution phase.

Furthermore, working on international markets, the development of Saipem's future strategies will depend significantly on the Company's ability to attract and retain highly qualified and competent personnel with a high level of diversity in terms of age, nationality and gender. Lastly, the regulatory developments in labour law in the countries where Saipem operates exposes the Company to risks of various kinds in the management of human resources, which can cause internal inefficiencies and disputes.

Mitigation

With the goal of preventing and mitigating these risks Saipem is committed to investing in generational balance, encouraging the development and growth of younger resources, as well as motivating and retaining the most experienced resources, in order to ensure the protection of the distinctive and strategic skills for Saipem through several different initiatives.

In this regard, the Human Resources Development Committee was set up, with the objective of monitoring and guiding the development and career of young people, as well as assessing their professional and managerial paths in a universal manner. Furthermore the aim of the Remuneration Policy, whose primary tools and objectives are defined in the Remuneration Report, is to attract and retain high-profile professional and managerial resources, and align management's interests aiming at value creation for shareholders in the medium-long term.

Management intends both to pursue greater effectiveness and efficiency and to facilitate the digital transformation process in the management and development of human resources.

The Company has a consolidated process of assessing and mapping skills and cataloguing the experiences of its personnel thanks to its commitment to capitalising on technological investments and the results achieved within the K-Map project.

The continued expansion of the Company into areas and activities that require further knowledge and skills require plans to employ management and technical personnel, both international and local, with different skills.

Therefore, Saipem has developed a resource planning process at the Group level based on available and needed skills.

As defined in the Code of Ethics, in full compliance with applicable legal and contractual provisions, Saipem undertakes to offer equal opportunities to all its employees, making sure that each of them receives a fair statutory and wage treatment exclusively based on merit and expertise, without discrimination of any kind.

In conclusion, the Group monitors the legislative developments relating to personnel management in all the countries in which it operates or is commercially involved in operating, availing itself of labour law consultants.

10. Risks related to the supply chain

Description and impact

In executing its projects, and in the normal course of its activities, the Group relies on numerous vendors of goods and services and subcontractors and in some cases partners. Any inadequate performances by vendors, subcontractors and partners could generate deficiencies in the supply chain and, consequently, lead to: (i) additional costs linked to the difficulty in replacing vendors the provide goods and services, subcontractors and partners identified to carry out the activities; (ii) the procurement of goods and services at higher prices or (iii) delays in the completion and delivery of projects.

A deterioration in relations with vendors, subcontractors and partners could transform into a competitive disadvantage linked to a reduction in Saipem's negotiating power, with subsequent increases in time and costs, a worsening of contract terms and a deterioration of commercial relations with the client and in the Group's economic results.

Mitigation

With the aim of preventing and mitigating these risks, the Company has adopted a structured system of qualification and selection in order to work with reliable vendors and subcontractors with a consolidated reputation. Moreover, Saipem has undertaken numerous operational and organisational initiatives that are included in the 'Fit for the Future 2.0' programme, in order to improve the effectiveness and efficiency of internal processes, which are also exposed to a series of risks of various kinds (for example, inadequate selection or incorrect stipulation of contractual clauses or requirements in terms of quality or quantity) impacting the performance of the projects of the various divisions.

In addition, Saipem is exposed to risks related to any unethical behaviour by vendors and

subcontractors. Saipem mitigates and prevents these risks with various tools, audits and training programmes. Saipem requires its vendors, subcontractors and partners to read and accept the Model 231 in its entirety, including the Code of Ethics, which is inspired by the principles of the Universal Declaration of Human Rights of the United Nations, the Fundamental Conventions of the ILO (International Labour Organisation) and to the OECD Guidelines for Multinational Enterprises (more information in the specific detail section of the 'Consolidated Non-Financial Statement').

11. Risks related to business processes

Description and impact

The industry in which Saipem operates has gone through a period of great transformation characterised by stronger competition and a reduction in profit margins. Therefore, the need to change the organisation model, the complexity of the market context are elements that challenged Saipem's management over recent years.

Mitigation

The Company has launched several initiatives aimed at recovering efficiency, called 'Fit for the Future' in which particular emphasis was placed on the rationalisation of business processes. The divisionalisation process occurred at the same time and had the aim of leading to a greater focus on business activities by allocating directly within the divisions many activities and processes that were previously monitored centrally in Corporate.

12. Business integrity risks

Description and impact

The Group is subject to the risk of fraud and/or illegal conduct by employees and third parties (for example, corruption, lack of transparency, leaking confidential information, non-compliance with company procedures and regulations). Specifically, Saipem carries out its business activities together with subcontractors, vendors and partners that could commit fraudulent acts in concert with employees to the detriment of the Company. Furthermore, the Group operates in various countries characterised by a high level of fraud and corruption, referred to in the 'Corruption Perception Index' of Transparency International.

In the context of risks related to possible fraud or illegal activities by employees or third parties, Saipem is also exposed, in particular, to risks related to the protection of information and know-how, as the Company in

the performance of its activities relies on information, data and know-how, of a sensitive nature, processed and contained in documents, also in electronic format, unauthorised access to which and disclosure of by employees or third parties may represent fraud or illegal activities, as well as causing damage to Saipem.

Lastly, it must be stated that within the Group there can be no non-compliance issues or incorrect application of the European Data Protection Regulation (GDPR), which could result in the application of sanctions to the detriment of the Company.

Mitigation

The Company carries out periodical audits and checks, including with the assistance of external consultants. Furthermore, even if Saipem has constantly updated, within all Group companies, its internal control system, the Model 231 which includes the Saipem Code of Ethics, as well as an organisation management and control model for Group companies (including those in foreign countries), it is not entirely possible to exclude the occurrence of fraudulent or unlawful conduct.

Saipem provides employees and stakeholders with an information channel – overseen by the Compliance Committee in a way that ensures confidentiality – through which it is possible to report any problems related to the internal control system, financial reporting, corporate administrative liability, fraud or other topics (i.e. violations of the Code of Ethics, mobbing, theft, personnel security, etc.).

Further information can be found in the specific detailed section in the Board of Statutory Auditors' Report to the Shareholders' Meeting.

Furthermore, over the years Saipem has developed a management system that has recently been certified for the International Standard ISO 37001 - Anti-corruption Management Systems (published by the International Organisation for Standardisation - ISO), which is an important safeguard in the prevention and fight against corruption, as this ISO 37001 standard defines requirements and provides a guideline to help an organisation prevent, detect, respond to corruption and comply with anti-corruption legislation and any other voluntary commitments applicable to its activities.

For the management of these risks related to the leak of confidential information, it should be noted that Saipem makes use of IT security technologies and procedures to mitigate this exposure (more information in the specific 'Information technology' section). Lastly, the Company has adopted principles and rules to be followed by the Group in its internal management and external communication of corporate documents and information regarding Saipem, with particular

reference to inside information (more information in the specific section within the 'Corporate Governance and Shareholding Structure Report').

Lastly, beginning in April 2018 Saipem developed an ad hoc Privacy Organisation Model aimed at guaranteeing compliance with the European directive on privacy (General Data Protection Regulation - GDPR).

13. Risks related to health, safety and the environment

Description and impact

The activities carried out by Saipem in both operational projects and projects related to upgrades, maintenance or disposal of assets, using internal staff and/or subcontractors, expose the Company to potential accidents that may cause negative impacts on the health and safety of people and the environment. Additionally, Saipem is subject to laws and regulations for the protection of health, safety and the environment at national and international level when conducting its operations.

Despite the major effort made by Saipem, it cannot be excluded that, in the course of normal Group activities, events that could compromise the health of people or the environment may occur. Furthermore, the occurrence of such events could lead to civil and/or criminal sanctions against the parties responsible and, in some cases of violation of safety laws, to the application of the provisions of Italian Legislative Decree No. 231/2001, with subsequent costs linked to sanctions against the Company and to the fulfilment of legal and regulatory obligations concerning, health, safety and the environment, as well as an impact to Saipem's reputation.

Moreover, in order to execute EPCI projects, drilling services and other services in the energy industry, the Group owns numerous assets, in particular specialised naval vessels (for example, for laying pipelines and lifting structures), offshore and onshore drilling rigs, production/treatment/storage and transport vessels commonly referred to as FPSO, Onshore equipment (for example, for pipe laying), manufacturing yard and logistics bases.

The Group's assets are also subject to the normal risks associated with ordinary operations and to catastrophic risks linked with the weather and/or natural disasters which can impact security and the safety of personnel and the environment. These risks connected with ordinary operations can be caused by: (i) mistaken or inadequate execution of manoeuvres and work sequences that lead to damage for assets or facilities; (ii) mistaken or inadequate ordinary and/or extraordinary maintenance.

Despite the fact that Saipem has specific know-how and competencies, has implemented internal procedures for the execution of its operations and regularly carries out maintenance work on its assets in order to monitor their quality and level of reliability, it is not possible to exclude the occurrence of incidents on assets or facilities during the execution of works.

Mitigation

With reference to these risks, the Company has developed a HSE (Health, Safety and Environment) management system which is in line with the requirements of laws in force and with international standards ISO 14001 and OHSAS 18001, and for which Saipem has obtained certification for the whole Group. Specifically, HSE risk management is based on the principles of prevention, protection, awareness, promotion, and participation; its aim is to guarantee the workers' health and safety and to protect the environment and the general well-being of the community.

Regarding the risks related to the safety and health of people, Saipem has undergone a series specific mitigation initiatives, among which please note:

- the continuing and renewed implementation of the 'Leadership in Health & Safety' (LIHS) programme, which aims to strengthen the corporate culture in the field of health and safety;
- the campaign dedicated to the 'Life Saving Rules', aimed at promoting awareness of dangerous activities and actions that each individual can have in place to protect themselves and others;
- the development of advanced occupational health and health surveillance activities.

Regarding the risks associated with safeguarding the environment, Saipem has developed a structured system of prevention, management and response to spills.

Regarding the risks related to environmental protection, Saipem has undergone various specific mitigation initiatives, among which please note:

- measures to eliminate the risk of spills and, if this happens, to implement measures and actions to prevent their spread;
- identification of asset-specific maintenance programmes aimed at preventing fluid leaks.

Saipem promotes initiatives aimed at saving water and managing water risk, for example the creation of the Water Management Plan (more information in the specific section of the 'Consolidated Non-Financial Statement'). Lastly, for the mitigation of the risks related to asset management, Saipem sustains significant expenses for the maintenance of assets it owns and has developed various prevention initiatives, among which we highlight the application of the Asset Integrity Management System, a system that provides for the systematic management of critical

elements, the identification of Key Performance Indicators and the creation of task familiarisation cards for managing the development of personnel assigned to specific roles or the use of critical equipment. Specifically, with regard to all vessels in the Group's fleet, Saipem periodically renews certifications issued by the appropriate classification bodies and by flag state authorities following inspections which the classification bodies perform on company vessels. In addition, the vessels, based on the technical characteristics and the type of each ship, must meet the requirements of applicable international maritime law and laws governing in the Oil & Gas industry (more information in the specific section of detail within the 'Consolidated Non-Financial Statement').

14. Risks related to the political, social and economic instability

Description and impact

Substantial portions of Saipem's operations are performed in countries which may be politically, socially or economically unstable. Developments in the political framework, economic crises, internal social unrest and conflicts and embargoes with other countries may temporarily or permanently compromise the Group's ability to operate cost efficiently in such countries, as well as its ability to recover Company assets therein, or may require specific measures (where possible in compliance with Saipem corporate policy) to be taken at an organisational or management level in order to enable the continuation of activities under way in conditions that differ from those originally anticipated.

Moreover, Saipem's operations, staff, and assets can be found in many countries which are potentially exposed to the threat of terrorism on a global scale by various types of extremist groups.

Additional risks associated with operations in these countries are: (i) the absence of a stable legislative framework and the change of the rules and regulations valid within the territory where it is operating, including laws that implement international protocols or conventions for that sector of activity; (ii) uncertainty over the protection of the foreign company's rights in the event of contractual violation by private companies or state entities; (iii) penalising developments or applications of laws, regulations, unilateral contract amendments which reduce the value of the assets, forced divestment and expropriation; (iv) restrictions of varying nature on the activities of construction, drilling, import and export; (v) changes in local regulations that impose the use of certain numbers of staff, and goods and services

supplied by local companies (so-called local content).

Moreover, amongst other things the regulatory framework also impacts the methods with which Saipem carries out its activities. Any adoption of more restrictive or unfavourable regulations, or the imposition of obligations for compliance, or further requirements linked to Engineering & Construction and Drilling activities, may lead to changes in operating conditions and require an increase in investments, production costs or, at any rate, to a slow-down in the development of activities. Any violations of health, safety and environmental laws could lead to limitations to the Group's activities or to fines, sanctions or penalties in the event of non-compliance with environmental and health and safety laws and regulations. Lastly, considering that Saipem carries out its business activities in a global context characterised by the management of diversity deriving from socio-economic, political, industrial and regulatory contexts, the Group is exposed to multiple situations regarding relations with staff and, where present, with trade unions. Such relationships, if not properly managed, can expose the Company to risks associated with relationships with personnel and possibly with trade unions which, can generate extra costs and impact the timing of the activities carried out in Saipem's operational offices and projects, as well as having negative repercussions on the Company's image and reputation.

Mitigation

Saipem is committed to constantly and closely monitoring the political, social and economic developments and terrorist threats in the countries of interest, both through specialised Group resources and through providers of security services and information analyses.

Therefore, Saipem is able to periodically assess these political, social and economic risks in the countries it operates in or intends to invest in based on a specific risk assessment model. Specifically, Saipem has adopted an articulate security model based on the criteria of prevention, precaution, protection, information, promotion and participation, with the objective of reducing risks deriving from the actions of physical or legal persons who expose the Company and its assets, people, goods, image and reputation to potential damage. In particular, in order to prevent these risks, Saipem also makes use of agencies that provide security services in the countries in which it operates. These agencies could expose Saipem to risks related to the violation of human rights in the execution of security services which they provide, for this reason the mitigation actions implemented by Saipem consist of training activities and regular controls.

In cases where Saipem's ability to operate is compromised, demobilisation is planned according to the criteria of protecting personnel and if necessary company assets and of minimising interruptions to operations through the adoption of solutions that render more rapid and less costly the recommencement of ordinary activities once favourable conditions are restored. These measures can increase costs and delays and have a negative impact on the margin of projects executed in such countries. Furthermore, Saipem constantly monitors changes in regulations of a various nature and compliance with them in order to minimise the impacts due to its operating activities in all countries of interest. Lastly, in support of its presence in the countries and in order to mitigate the impact of its operating activities on local economies and the risks generated by relationships with subjects operating in the same areas, Saipem adopts a system of engagement with its local stakeholders, with the goal of maintaining dialogue and consolidating relationships and creating shared value, especially through active participation in the socio-economic development of the areas in which it operates (more information in the specific section within the 'Consolidated Non-Financial Statement').

In addition, Saipem has faced and is continuing to manage the complex adjustment of the workforce to the significant changes in the market in which it operates and the introduction of a new divisional business model, as well as organisational and procedural changes based on the programme 'Fit for the Future 2.0', taking into account the relationships with both the staff and with trade unions in the countries where it operates.

In fact, in order to mitigate and prevent these risks, Saipem has configured an approach of maximum awareness to industrial relations in the countries in which it operates. Specifically, Saipem is committed to strengthening relations and communication with staff, trade unions and reaching and renewing specific agreements with the social partners involved (more information in the specific section within the 'Consolidated Non-Financial Statement').

15. Risks related to non financial reporting

Description and impact

The sustainability rating agencies assess the level of sustainability of the business strategy and the environmental, social and governance performance for Saipem. In the event that such rating agencies evaluate Saipem negatively, the Company could be exposed to negative impacts on its image and reputation in the relevant industry and among its main

clients and it could also impact share performance. In fact, the level of attention of clients on environmental, social and governance performance and on the level of sustainability of the business strategy has grown.

Mitigation

Saipem has adopted a sustainability model that guides all business processes and is oriented towards excellence and the achievement of long-term objectives to prevent, reduce and manage possible risks. Saipem adheres to the principles of the Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises and is committed to promoting and respecting the principles set out in the UN Global Compact.

In particular, Saipem annually implements a materiality analysis process aimed at identifying, together with the main external and internal stakeholders, the sustainability aspects of its business that could substantially influence the assessments and decisions of its stakeholders and which are important for the Company itself.

In fact, Saipem has undertaken engagement activities with a transparent and proactive approach by the main international and local stakeholders.

Lastly, Saipem is committed to monitoring the main sustainability performance indicators (more information in the 'Consolidated Non-Financial Statement' and in the 'Sustainable Saipem').

Transfer of risks to the insurance market

In close cooperation with top management the Corporate insurance function annually defines the Saipem Group's guidelines on insurance coverage against residual risks of material damages and civil liability, and those deriving from contracts taken on.

An insurance programme is defined on the basis of the guidelines, which identifies specific excess and maximum limit coverage for each type of risk based on an analysis that takes into account claim records for recent years, industry statistics and conditions offered by the international insurance market.

The Saipem insurance programme is structured in such a way as to appropriately transfer risks deriving from operations to the insurance market, in particular the risks associated with the management of the fleet, equipment and other assets, including third party liability risks and risks deriving from the performance of contracts awarded by its clients.

Given the coverage that is offered by the insurance market and the changing circumstances on the energy market in which Saipem operates, it is not possible to guarantee that all circumstances and events will be adequately covered by the insurance programme. Equally, due to the volatility of the insurance market, it cannot be guaranteed that it will be possible in the future to reasonably maintain adequate insurance coverage at the current rates, terms and conditions.

Within the Saipem insurance programme, a distinction can be made between insurance cover for Group assets ('Corporate insurance policies') and the insurance cover connected with project execution.

Corporate insurance policies

The Corporate insurance programme is structured with an initial band of risk that is self-insured through a captive reinsurance company, with amounts in excess covered by a catastrophic insurance programme taken out on the insurance market.

The catastrophic insurance programme is composed of policies that cover damage to property, and maritime and non-maritime third party liability. Cover can be broken down as follows:

Material damages

- 'Fleet Insurance' policy: covers the entire fleet against events that cause partial or total damage to vessels;
- 'Equipment' policy: covers all onshore and offshore equipment, for example site equipment, onshore drilling rigs, subsea equipment, etc.;
- 'Transport' policy: covers transport, handling and storage of assets and equipment by land, sea or air;
- 'Buildings and Sites' policy: covers owned or rented buildings, offices, storage facilities and shipyards;
- 'Other minor risks' policy: covers minor risks such as theft and dishonesty of employees.

Third-party liability

- 'Protection & Indemnity' ('P&I') policy: shipowners' liability cover through a P&I Club that is part of the International Group of P&I Clubs for events occurring during

transit and/or for events occurring during offshore drilling and construction operations;

- 'Comprehensive General Liability' policy: covers all other types of general and third party liability claims arising from Saipem's industrial activities and supplements previous P&I coverage;
- 'Employer's Liability' and 'Personal Accident' policies: these cover employer liability and employee accident risks respectively on the basis of the specific regulations in force in each country where the Group operates;
- 'Directors & Officers' ('D&O') policy: it covers the responsibilities of the administrative and control bodies, as well as managers, of the Company and its subsidiaries in the performance of their mandates and duties.

A key tool in the management of Saipem's insurable risks is Sigurd Rück AG, a captive reinsurance company, which operates to cover the first level of risk.

Sigurd Rück AG in turn carries out risk mitigation by re-insuring its portfolio on primary securities markets.

Insurance policies relating to the execution of projects

For all contracts assigned there must be specific project insurance coverage in place and said coverage generally falls within the client's contractual scope of responsibility. In cases where such coverage instead falls within the contractor's scope of responsibility, Saipem defines an insurance suitable for covering all project-related risks, for the entire term.

Usually it takes out 'Builders' All Risks' insurance, which covers the scope of work of the contract, i.e. damage to the works under construction, as well as to equipment, products and materials required for its construction and third party liability for all works to be performed by the Group during all phases of project execution (engineering, transportation, construction, assembly, testing) including the contractual guarantee period. The high level of insurance premiums and excess amounts payable on these policies lead Saipem to implement continual improvement of prevention and protection processes in terms of quality, health, safety and environmental impact.

ADDITIONAL INFORMATION

Renewal of the EMTN Programme

On July 17, 2018, the Board of Directors of Saipem resolved to renew for one year the EMTN Programme (Euro Medium Term Notes) to issue non-convertible bonds, as instituted by the resolution of April 27, 2016 for a total amount of €2,000 million subsequently renewed for a year and increased to a total amount of €3,000 million with a resolution dated June 27, 2017. The maximum amount of the EMTN Programme (€3,000 million, €2,000 million of which have already been issued) has not changed. Renewal of the EMTN Programme will allow the Company to continue to benefit from the typical flexibility of this type of instrument in the event of future bond issues. The Board of Directors postponed the approval of individual issues of securities under the EMTN Programme pursuant to Article 2410 of the Civil Code, as well as the definition of terms, duration and conditions and what is necessary for the purposes of issuing and placing them. At December 31, 2018, residual debt amounts to €2,000 million.

Revolving credit line

On July 30, 2018, Saipem signed with a pool of seventeen national and international banks the extension contract for expiration and modification of the revolving credit line (the so-called 'Revolving Credit Facility') originally signed on December 10, 2015. The contract provides for the extension of the line's expiration from December 2020 to July 2023, the reduction of the amount from the original €1.5 billion to €1 billion, considered more suitable in consideration of the current and prospective liquidity of the Saipem Group, and an improvement in economic conditions. At December 31, 2018, residual debt is equal to 0.

Long-term Monetary Incentive schemes

On July 24, 2018, the Board of Directors resolved, upon the proposal of the Compensation and Nomination Committee, to implement the 2016-2018 Long-Term Share-Based Incentive Scheme ('the Plan') for 2018, approved by the Shareholders' Meeting on April 29, 2016. The Board of Directors resolved to set at 7,555,655 the number of

treasury shares available for the plan and mandating the CEO to identify the beneficiaries of the 2018 allocation.

Eni - CDP Equity Shareholder's Agreement

On July 24, 2018, Eni SpA also on behalf of CDP Equity SpA (formerly Fondo Strategico Italiano SpA), has advised Saipem, pursuant to Article 122 of the TUF [Consolidated Finance Law], and Articles 129, comma 2, and 131 of Consob Issuers Regulation, of the automatic renewal, due to lack of termination, of the Shareholders' Agreement signed between the Parties on October 27, 2015, with respect to Saipem SpA ordinary shares. In particular, the Parties had stipulated that the agreement would last for three years from the effective date and that on the expiration date, that is January 22, 2019, the same would automatically be renewed exclusively for a further period of three years, unless terminated by any of them with at least six months' notice. Without prejudice to the above, the aforementioned six-month period expired without any of the Parties exercising the right to cancel, the Agreement was automatically renewed for a further three years on the date of its natural expiry, i.e. until January 22, 2022.

Cyber attack

On December 10, Saipem suffered a direct cyber attack on its servers. The attack originated in the Middle East, India, Aberdeen and, in a very limited way, in Italy, using a variant of Shamoon malware. The attack led to the cancellation of data and infrastructures, typical effects of malware. The incident was promptly reported to the competent authorities and publicly disclosed to allow partners and stakeholders to be informed and evaluate possible protective measures. The activities to restore the infrastructures that were attacked continued in accordance with a tested and consolidated protocol and using the most advanced security tools on the market to increase the level of data security. Thanks to these activities, all infrastructure services were restored to the sites concerned and there was no theft or loss of data, therefore, there were no impediments to the continuation of ordinary activities and an adequate level of control and monitoring was achieved.

Regulation on Markets

Article 15 of Consob Regulation on Markets (adopted with Resolution No. 20249, of December 28, 2017): conditions for the listing of shares of companies with control over companies established and regulated under the law of non-EU countries

With regard to the published regulations setting out conditions for the listing of shares of companies with control over companies established and regulated under the law of non-EU countries and that are deemed to be of material significance in relation to the consolidated financial statements:

- i. as at December 31, 2018, the regulatory provisions of Art. 15 of the Regulation on Markets applied to the following 20 subsidiaries:
 - Saudi Arabian Saipem Ltd;
 - Snamprogetti Saudi Arabia Co Ltd Llc;
 - PT Saipem Indonesia;
 - Saipem Misr for Petroleum Services (S.A.E.);
 - Saipem Offshore Norway AS;
 - Saipem Drilling Norway AS;
 - Saipem Contracting Nigeria Ltd;
 - ER SAI Caspian Contractor Llc;
 - Petrex SA;
 - Saipem America Inc;
 - Saipem do Brasil Serviços de Petróleo Ltda;
 - Boscongo SA;
 - Saimexicana SA de Cv;
 - Saipem India Projects Private Ltd;
 - Saipem Canada Inc;
 - Saipem Services Mexico SA de Cv;
 - Sigurd Rück AG;
 - Sajer Iraq for Petroleum Services, Trading, General Contracting & Transport Llc;
 - Snamprogetti Engineering & Contracting Co Ltd;
 - Global Petroprojects Services AG.
- ii. Procedures designed to ensure full compliance with the aforementioned regulations have been adopted.

Disclosure of transactions with related parties

Transactions concluded by Saipem with related parties essentially regard the exchange of goods, the supply of services, the provision and utilisation of financial resources including entering into derivatives contracts. All transactions form part of ordinary operations, are settled at market conditions, i.e. at the conditions that would have applied between two independent parties, and are concluded in the interest of Group companies.

Directors, auditors, general managers and senior managers with strategic responsibilities must declare, every 6 months, any transactions

they enter into with Saipem SpA or its subsidiaries, directly or through a third party. Directors and Statutory Auditors release every six months and/or in the event of a change, a statement in which each potential interest is represented in relation to the Company and the Group and in any case report to the Chief Executive Officer (or the Chairman where the Chief Executive Officer is involved), who informs the other directors and the Board of Statutory Auditors of the individual transactions that the Company intends to perform, in which they have direct interests.

At December 31, 2018, Saipem SpA is not subject to the management and coordination of other parties. Saipem SpA directs and coordinates its own subsidiaries pursuant to Article 2497 ff. of the Italian Civil Code.

The value of transactions of a trade, financial or other nature entered into with related parties are illustrated in Note 53 of the 'Notes to the consolidated financial statements'.

Outlook

2019 is still expected to be characterised by a scenario of highly volatile oil prices and by the gradual recovery of new investments by Oil Companies. Energy transition and the de-carbonisation requirements will open new business opportunities in line with Saipem's strategy to diversify and integrate what we offer and thus evolve towards a model of 'Global Solution Provider' in the energy sector, able to accompany customers in the current transition. The backlog at the end of 2018, combined with forecasts of commercial offers in progress, allow forecasts of around €9 billion for the financial year 2019, with a margin in terms of adjusted EBITDA of over 10%. Capital expenditure is expected to be approximately €500 million, while the net debt is expected to be around €1 billion at the end of 2019.

Events subsequent to year end

New contracts

On January 18, 2019, Saipem was awarded two EPCI contracts in Saudi Arabia awarded by Saudi Arabian Oil Co (Saudi Aramco). These two contracts are part of the existing Long Term Agreement, renewed in 2015 and in force until 2021. The two contracts refer to the development of offshore fields in Berri and Marjan, located in the Persian Gulf.

The activities will include the engineering, procurement, construction and installation of subsea systems, the laying of the relevant pipelines, cables and umbilicals and related platforms.

The total value of these new contracts mentioned above are equal to \$1.3 billion.

In addition, Saipem won the EPCI contract for the Tortue project assigned by BP in the first quarter of 2019. The project, which will be carried out in a consortium with the French company Eiffage, on the border between Mauritania and Senegal's territorial waters, involves the engineering, procurement, construction and installation of moorings and docking structures that will require the use of the Saipem 3000.

Disposals

On February 7, 2019, the company Ponticelli Frères SAS acquired interest in Tecnoprojecto International Projectos e Realizações Industriais SA ('TCPI'), 42.5% of which is held by the subsidiary Saipem SA.

Consob Resolution

On March 12, Saipem informs that Consob, with Resolution No. 20828, dated February 21, 2019, notified to Saipem on March 12, 2019 and adopted following the outcome of the sanctioning administrative procedure launched on April 6, 2018, has imposed the following administrative financial fines:

- €200 thousand against the Chief Executive Officer of the Company;
- €150 thousand against the manager responsible for drafting the Company's corporate accounting documents in office at the time of the capital increase in 2016.

Furthermore, pursuant to Article 195, paragraph 9, of the consolidated Italian Finance Law (in the formulation in force at the time of the alleged breaches), Consob as imposed the payment of €350,000 against Saipem SpA as the party jointly and severally liable for the payment of the aforementioned administrative financial fines along with the two individuals fined, with the obligation to recourse against the same two individuals. On April 2, 2019, the Board of Directors of Saipem decided to appeal the Resolution No. 20828 before the Court of Appeal.

Updating 'Model 231 (includes the Code of Ethics)'

On March 11, 2019, the Board of Directors' implemented an additional update of the Organisation, Management and Control Model of Saipem SpA - 'Model 231 (includes the Code of Ethics)' following the implementation of the Company's new organisational structure as of July 2018 and as ratified by the draft law dated January 15, 2018.

Secondary offices

Pursuant to Article 2428 of the Italian Civil Code, the Company declares that it has a secondary office in Cortemaggiore (PC), Via Enrico Mattei, 20.

Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes

Reclassified balance sheet

(€ million)	Jan. 1, 2018		Dec. 31, 2018	
Items of the reclassified balance sheet (where not stated otherwise, items comply with the statutory scheme)	Partial values from the mandatory statement	Values from the reclassified statement	Partial values from the mandatory statement	Values from the reclassified statement
A) Net tangible assets		4,581		4,326
<i>Note 15 - Property, plant and equipment</i>	4,581		4,326	
B) Net intangible assets		753		702
<i>Note 16 - Intangible assets</i>	753		702	
C) Investments		141		78
<i>Note 17 - Investments</i>	143		119	
<i>Reclassified from E) - provisions for losses related to investments</i>	(2)		(41)	
D) Working capital		909		584
<i>Note 10 - Trade and other receivables</i>	2,362		2,644	
<i>Reclassified to L) - financing receivables not related to operations</i>	(2)		(32)	
<i>Note 11 - Inventories and contracts</i>	1,893		1,389	
<i>Note 12 - Current tax assets</i>	213		201	
<i>Note 13 - Other current tax assets</i>	221		117	
<i>Note 14 - Other current assets</i>	185		100	
<i>Reclassified to L) - financing receivables not related to operations</i>	-		-	
<i>Note 18 - Deferred tax assets</i>	268		250	
<i>Note 19 - Other non-current assets</i>	102		67	
<i>Note 21 - Trade payables, other debt and contract liabilities</i>	(4,036)		(3,879)	
<i>Note 22 - Income tax payables</i>	(47)		(46)	
<i>Note 23 - Other current tax liabilities</i>	(191)		(108)	
<i>Note 24 - Other current liabilities</i>	(24)		(92)	
<i>Note 28 - Deferred tax liabilities</i>	(34)		(18)	
<i>Note 29 - Other non-current liabilities</i>	(1)		(9)	
E) Provisions for contingencies		(338)		(289)
<i>Note 26 - Provisions for contingencies</i>	(340)		(330)	
<i>Reclassified to C) - provisions for losses related to investments</i>	2		41	
F) Provisions for employee benefits		(199)		(208)
<i>Note 27 - Provisions for employee benefits</i>	(199)		(208)	
G) Assets held for sale		-		2
EMPLOYED CAPITAL, NET		5,847		5,195
H) Shareholders' equity		4,510		3,962
<i>Note 33 - Saipem's shareholders' equity</i>	4,510		3,962	
I) Non-controlling interests		41		74
<i>Note 32 - Non-controlling interests</i>	41		74	
L) Net debt		1,296		1,159
<i>Note 8 - Cash and cash equivalents</i>	(1,751)		(1,674)	
<i>Note 9 - Financial assets measured at fair value through OCI</i>	(69)		(86)	
<i>Note 20 - Short-term debt</i>	120		80	
<i>Note 25 - Long-term debt</i>	2,929		2,646	
<i>Note 25 - Current portion of long-term debt</i>	69		225	
<i>Reclassified from D) - financing receivables not related to operations (Note 10)</i>	(2)		(32)	
FUNDING		5,847		5,195

Reclassified income statement

The reclassified income statement differs from the mandatory scheme solely for the following reclassifications:

- the items 'other income and revenues' (€4 million) relating to 'reimbursements for services that are not part of core operations' (€8 million) have been recorded as reductions to the corresponding cost items in the reclassified income statement;
- 'finance income' (€209 million), 'finance expenses' (-€268 million) and 'derivatives' (-€106 million), which are indicated separately under the statutory scheme, are stated under the item 'finance (expense) income' (-€165 million) in the reclassified income statement;
- the item 'other operating income (expense)' (-€1 million), which is indicated separately under the statutory scheme, is stated under the item 'purchases, services and other costs' in the reclassified income statement.

All other items are unchanged.

Items of the reclassified cash flow statement

The reclassified cash flow statement differs from the mandatory scheme solely for the following reclassifications:

- the items 'depreciation and amortisation' (€464 million), 'net impairment of tangible and intangible assets' (€347 million), 'other charges' (-€66 million), 'change in the provision for employee benefits' (€8 million) and 'effect of accounting using the equity method' (€87 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'depreciation/amortisation and other non-monetary items' (€840 million);
- the items 'income taxes' (€194 million), 'interest expense' (€91 million) and 'interest

income' (-€6 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'dividends, interests and taxes' (€279 million);

- the items regarding changes in 'trade receivables' (-€272 million), to changes in 'inventories' (€21 million), to 'provisions for contingencies' (-€43 million), to 'trade payables' (-€140 million), to 'other contracts and contract liabilities' (€230 million) and 'other assets and liabilities' (€183 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'changes in working capital related to operations' (€259 million);
 - the items 'interest received' (€6 million), 'dividends received' (€4 million), 'income taxes paid net of refunds of tax credits' (-€196 million) and 'interest paid' (-€75 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'dividends received, income taxes paid and interest paid and received' (-€261 million);
 - the items relating to investments in 'tangible assets' (-€467 million) and 'intangible assets' (-€18 million), indicated separately and included in cash flow from investing activities in the statutory scheme, are shown net under the item 'capital expenditure' (-€485 million);
 - the items 'proceeds from long-term debt' (€222 million), 'increase (decrease) in short-term debt' (-€45 million) and 'repayments of long-term debt' (-€349 million), indicated separately and included in net cash flow used in financing activities in the statutory scheme, are shown net under the item 'changes in short and long-term financial debt' (-€172 million).
- All other items are unchanged.

GLOSSARY

Financial terms

- **Adjusted EBIT** operating result net of special items.
- **Adjusted EBITDA** gross operating margin net of special items.
- **Beta** coefficient that defines the measure of the systematic risk of a financial asset, i.e. the trend of an asset's return to adapt in line with changes in the reference market. The beta is defined as the ratio between the probability of the expected return of a specific asset with the expected market return, and the variance of the market return.
- **CGU** Cash Generating Unit refers to, as part of the execution of the impairment test, the smallest identifiable group of assets that generates incoming and/or outgoing financial flows, deriving from the continuous use of assets, largely independent from incoming and/or outgoing financial flows generated by other assets or groups of assets.
- **EBIT** (earnings before interest and tax).
- **EBITDA** (earnings before interest, taxes, depreciation and amortisation).
- **Headroom** (Impairment Loss) positive (or negative) surplus of the recoverable amount of a CGU on the related carrying amount.
- **IFRS** International Financial Reporting Standards. Accounting standards issued by the IASB (International Accounting Standards Board) and adopted by the European Commission. They comprise International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretations Committee (SIC) adopted by the IASB. The name International Financial Reporting Standards (IFRS) has been adopted by the IASB for standards issued after May 2003. Standards issued before May 2003 have maintained the denomination IAS.
- **Leverage** measures a company's level of indebtedness, calculated as the ratio between net borrowings and shareholders' equity including non-controlling interests.
- **OECD** (Organisation for Economic Co-operation and Development) composed of thirty-five developed countries having in common a democratic system of government and a free market economy.
- **OPEC** Organization of the Petroleum Exporting Countries.
- **Receivables 'in bonis'** total amount of receivables of a commercial nature, not

expired or past due by no more than twelve months, towards customers deemed solvent.

- **ROACE** (Return On Average Capital Employed) calculated as the ratio between the net result before non-controlling interest, plus net finance charges on net borrowings less the related tax effect and net average capital employed.
- **Special items** items of income arising from events or transactions that are non-recurring or that are not considered to be representative of the ordinary course of business.
- **WACC** Weighted Average Cost of Capital calculated as a weighted average of the cost of the company's debt capital and the cost of risk capital, defined on the basis of the Capital Asset Pricing Model (CAPM) methodology, consistent with the specific risk of Saipem's business, measured by the beta of the Saipem share.
- **Write-off** cancellation or reduction of the value of an asset.

Operational terms

- **Buckle detection** system that utilises electromagnetic waves during pipelaying to signal collapse of or deformations to pipeline laid.
- **Bundles** bundles of cables.
- **Carbon Capture and Storage** technology which enables the carbon present in gaseous effluents from hydrocarbon combustion and treatment plants to be captured and stored over long periods of time in underground geological formations, thus reducing or eliminating carbon dioxide emissions into the atmosphere.
- **Central Processing Facility** production unit performing the first transformation of crude oil or natural gas.
- **Cold stacked** idle plant with a significant reduction in personnel and reduced maintenance.
- **Commissioning** series of processes and procedures undertaken in order to start operations of a gas pipeline, associated plants and equipment.
- **Concrete coating** reinforced concrete coating for subsea pipelines in order to ballast and protect them from damage and corrosion.
- **Conventional waters** water depths of up to 500 metres.
- **Cracking** chemical-physical process, typically employed in dedicated refinery

- plants, whose objective is to break down the heavy hydrocarbon molecules obtained from primary distillation into lighter fractions.
- **Debottlenecking** removal of obstacles (in rigs/fields) which leads to higher production.
 - **Deck** area of a vessel or platform where process plants, equipment, accommodation modules and drilling units are located.
 - **Decommissioning** process undertaken in order to end operations of a gas pipeline, associated plant and equipment. It is performed at the end of the useful life of the plant or vessel following an incident, for technical or financial reasons, for safety or environmental reasons.
 - **Deep waters** water depths of over 500 metres.
 - **Downstream** all operations that follow exploration and production operations in the oil sector.
 - **Drillship** vessel capable of self-propulsion, designed to carry out drilling operations in deep waters.
 - **Dry-tree** wellhead located above the water on a floating production platform.
 - **Dynamically Positioned Heavy Lifting Vessel** vessel equipped with a heavy-lift crane, capable of holding a precise position through the use of thrusters, thereby counteracting the force of the wind, sea, current, etc.
 - **EPC** (Engineering, Procurement, Construction) a type of contract typical of the Onshore Engineering & Construction segment, comprising the provision of engineering services, procurement of materials and construction. The term 'turnkey' is used to indicate that the system is delivered to the client ready for operations, i.e. already commissioned.
 - **EPCI** (Engineering, Procurement, Construction, Installation) type of contract typical of the Offshore Engineering & Construction segment, which relates to the realisation of a complex project where the global or main contractor (usually a construction company or a consortium) provides the engineering services, procurement of materials, construction of the system and its infrastructure, transport to site, installation and commissioning/preparatory activities for the start-up of operations.
 - **Fabrication yard** yard at which offshore structures are fabricated.
 - **Facilities** auxiliary services, structures and installations required to support the main systems.
 - **Farm out** awarding of the contract by the client to another entity for a fixed period of time.
 - **FDS** (Field Development Ship) dynamically-positioned multi-purpose crane and pipelay vessel.
 - **FEED** (Front-End Engineering and Design) basic engineering and preliminary activities carried out before beginning a complex project to evaluate its technical aspects and enable an initial estimate of the investment required.
 - **Flare** tall metal structure used to burn off gas produced by oil/gas separation in oil fields when it is not possible to utilise it on site or ship it elsewhere.
 - **FLNG** Floating Liquefied Natural Gas unit used for the treatment, liquefaction and storage of gas which is subsequently transferred onto vessels for transportation to end-use markets.
 - **Floatover** type of module installation on offshore platforms that does not require lifting operations. A specialised vessel transporting the module uses a ballast system to position itself directly above the location where the module is to be installed. Once the module is in contact with the supports, the vessel disconnects and the module is subsequently secured to the support structure.
 - **Flowline** pipeline used to connect individual wells to a manifold or to gathering and processing facilities.
 - **FPSO vessel** Floating Production, Storage and Offloading system comprising a large tanker equipped with a high-capacity production facility. This system, moored at the bow to maintain a geo-stationary position, is effectively a temporarily fixed platform that uses risers to connect the subsea wellheads to the on-board processing, storage and offloading systems.
 - **FSHR** (Free Standing Hybrid Risers) system consisting of a vertical steel pipe ('riser'), which is kept under tension by a floating module position near the water whose buoyancy ensures stability. A flexible pipe (jumper) connects the upper part of the riser to the Floating Production Unit (FPU), while the riser is anchored to the sea bottom by means of an anchoring system. A rigid pipe (riser base jumper) connects the lower part of the FSHR to the Pipe Line End Terminations (PLETs).
 - **FSRU** (Floating Storage Regasification Unit) a floating terminal in which liquefied natural gas is stored and then regasified before being transported by pipeline.

- **Gas export line** pipeline for carrying gas from the subsea reservoirs to the mainland.
- **Grass Root Refinery** a refinery that is built from scratch with a planned capacity.
- **Hydrocracker** installation in which large hydrocarbon molecules are broken down into smaller ones.
- **Hydrotesting** operation involving high pressure (higher than operational pressure) water being pumped into a pipeline to ensure that it is devoid of defects.
- **Hydrotreating** refining process aimed at improving the characteristics of oil fractions.
- **Ice Class** classification that indicates the additional level of upgrading and other criteria that make a ship sea worthy to sail in sea ice.
- **International Oil Companies** privately-owned, typically publicly traded, oil companies engaged in various fields of the upstream and/or downstream oil industry.
- **Jacket** platform underside structure fixed to the seabed using piles.
- **Jack-up** mobile self-lifting unit comprising a hull and retractable legs used for offshore drilling operations.
- **J-laying** method of pipelaying that utilises an almost vertical launch ramp, making the pipe configuration resemble the letter 'J'. This type of pipelaying is suitable for deep waters.
- **Lay-up** idle vessel with suspension of the period of validity of the class certificate.
- **Leased FPSO** FPSO (Floating Production, Storage and Offloading) vessel for which a lease contract is in place between a client/lessee (Oil Company) and a contractor/lessor, whereby the lessee (customer/Oil Company) makes lease payments to the lessor for use of the vessel for a specific period of time. At the end of the lease term, the lessee has the option to purchase the FPSO.
- **LNG** (Liquefied Natural Gas) obtained by cooling natural gas to minus 160 °C. At normal pressure, gas is liquefied to facilitate its transportation from the place of extraction to that of processing and/or utilisation. A tonne of LNG is equivalent to 1,500 cubic metres of gas.
- **Local Content** policy whereby a company develops local capabilities, transfers its technical and managerial know-how and enhances the local labour market and businesses through its own business activities.
- **LPG** (Liquefied Petroleum Gas) produced in refineries through the fractionation of crude oil and subsequent processes, liquid petroleum gas exists in a gaseous state at ambient temperatures and atmospheric pressure, but changes to a liquid state under moderate pressure at ambient temperatures, thus enabling large quantities to be stored in easy-to-handle metal pressure vessels.
- **LTI** (Lost Time Injury) any work-related injury that renders the injured person temporarily unable to perform any regular job or restricted work on any day/shift after the day or shift on which the injury occurred.
- **Marginal fields** oil fields with scarce exploitable resources or at a stage of declining production for which extended use is attempted through low risk, cost effective technologies are used.
- **Midstream** sector comprising all those activities relating to the construction and management of the oil transport infrastructure.
- **Moon pool** opening in the hull of a drillship to allow for the passage of equipment.
- **Mooring buoy** offshore mooring system.
- **Multipipe subsea** subsea gas/liquid gravity separation system using a series of small diameter vertical separators operating in parallel (for deep water application).
- **National Oil Companies** State-owned/controlled companies engaged in oil exploration, production, transportation and conversion.
- **NDT** (Non Destructive Testing) a series of inspections and tests used to detect structural defects conducted using methods that do not alter the material under inspection.
- **NDT Phased Array** non-destructive testing method that employs ultrasound to detect structural or welding defects.
- **Offshore/Onshore** the term offshore indicates a portion of open sea and, by extension, the activities carried out in this area, while onshore refers to land operations.
- **Oil Services Industry** industrial sector that provides services and/or products to the National or International Oil Companies engaged in oil exploration, production, transportation and conversion.
- **Open Book Estimate** (OBE) type of contract where the lump-sum fee for the project (usually for turnkey or EPC projects) is agreed on with the client, with complete transparency, after the contract has been signed and during an advanced stage of the base engineering, on the basis of an overall project cost estimate.
- **P&ID** (Piping and Instrumentation Diagram) diagram showing all plant equipment, piping and instrumentation with associated shut-down and safety valves.
- **Pig** piece of equipment used to clean, descale and survey a pipeline internally.
- **Piggy back pipeline** small-diameter pipeline, fixed to a larger pipeline, used to transport a product other than that of the main line.
- **Pile** long and heavy steel pylon driven into the seabed. A system of piles is used as the foundation for anchoring a fixed platform or other offshore structures.
- **Pipe-in-pipe** subsea pipeline system comprising 2 coaxial pipes, used to

- transport hot fluids (Oil & Gas). The internal pipe has the function of transporting the fluid. The space between the two pipes is insulated to reduce heat exchange with the external environment. The external pipe provides mechanical protection from the pressure of the water.
- **Pipe-in-pipe forged end** forged end of a coaxial double pipe.
 - **Pipelayer** vessel used for subsea pipe laying.
 - **Pipeline** pipes and auxiliary equipment used principally for transporting crude oil, oil products and natural gas to the point of delivery.
 - **Pre Assembled Rack (PAR)** pipeline support beams.
 - **Pre-commissioning** phase comprising pipeline clean-out and drying.
 - **Pre-drilling template** support structure for a drilling platform.
 - **Pre-Salt layer** geological formation present on the continental shelves offshore Brazil and Africa.
 - **Pre Travel Counselling** health and medical advice designed to take into account the health of the individual worker and ensure that he/she is furnished with adequate information on the specific risks present in his/her country of destination and the preventive measures that should be adopted.
 - **PTS (Pipe Tracking System)** an electronic system used to ensure the full traceability of the components of subsea pipes installed on a project.
 - **Pulling** minor operations on oil wells due to maintenance or marginal replacements.
 - **QHSE** Quality, Health, Safety, Environment.
 - **Rig** drilling installation comprising the derrick, the drill deck (which supports the derrick), and ancillary installations that enable the descent, ascent and rotation of the drill unit, as well as mud extraction.
 - **Riser** manifold connecting the subsea wellhead to the surface.
 - **ROV (Remotely Operated Vehicle)** unmanned vehicle, piloted and powered via umbilical, used for subsea surveys and operations.
 - **Shale gas** unconventional gas extracted from shale deposits.
 - **Shale oil** non conventional oil obtained from bituminous shale.
 - **Shallow water** see Conventional waters.
 - **Sick Building Syndrome** a combination of ailments associated with a person's place of work. The exact causes of the syndrome are not known but the presence of volatile organic compounds, formaldehyde, moulds and dust mites may be contributing factors.
 - **S-laying** method of pipelaying that utilises the elastic properties of steel, making the pipe configuration resemble the letter 'S', with one end on the seabed and the other under tension on-board the ship.
- This configuration is suited to medium to shallow-water pipelaying.
- **Slug catcher** equipment for the purification of gas.
 - **Smart stacking** period of idleness that allows for optimising costs and the application of a rig preservation plan.
 - **Sour water** water containing dissolved pollutants.
 - **Spar** floating production system, anchored to the seabed by means of a semi-rigid mooring system, comprising a vertical cylindrical hull supporting the platform structure.
 - **Spare capacity** relationship between crude oil production and production capacity, i.e. quantity of oil which is not currently needed to meet demand.
 - **Spool** connection between a subsea pipeline and the platform riser, or between the terminations of 2 pipelines.
 - **Spoolsep** unit used to separate water from oil as part of the crude oil treatment process.
 - **Stripping** process through which volatile compounds are removed from the liquid solution or the solid mass in which they have been diluted.
 - **Subsea processing** operations performed in offshore oil and/or natural gas field developments, especially relating to the equipment and technology employed for the extraction, treatment and transportation of oil or gas below sea level.
 - **Subsea tiebacks** lines connecting new oil fields with existing fixed or floating facilities.
 - **Subsea treatment** a new process for the development of marginal fields. The system involves the injection and treatment of sea-water directly on the seabed.
 - **SURF (Subsea, Umbilicals, Risers, Flowlines)** facilities, pipelines and equipment connecting the well or subsea system to a floating unit.
 - **TAD (Tender Assisted Drilling unit)** an offshore platform complete with drilling tower, connected to a drilling support tender vessel housing all necessary ancillary infrastructures.
 - **Tandem Offloading** method used for the transfer of liquids (oil or LNG) between two offshore units in a line via aerial, floating or subsea lines (unlike side-by-side offloading, where the two units are positioned next to each other).
 - **Tar sands** mixture of clay, sand, mud, water and bitumen. The tar is made up primarily of high molecular weight hydrocarbons and can be transformed into various petroleum products.
 - **Template** rigid and modular subsea structure where the oilfield well-heads are located.
 - **Tendons** pulling cables used on tension leg platforms to ensure platform stability during operations.

- **Termination for Convenience** the right to unilaterally terminate the contract at any time without giving a reason, upon payment of a contractually negotiated settlement in order to exercise said right (so called 'termination fee').
- **Tie-in** connection between a production line and a subsea wellhead or simply a connection between two pipeline sections.
- **Tight oil** oil 'trapped' in liquid form deep below the earth's surface in low permeability rock formations, which it is difficult to extract using conventional methods.
- **TLP** (Tension Leg Platform) fixed-type floating platform held in position by a system of tendons and anchored to ballast caissons located on the seabed. These platforms are used in ultra-deep waters.
- **Topside** portion of a platform above the jacket.
- **Train** series of units that achieve a complex refining, petrochemical, liquefaction or natural gas regasification process. A plant can be made up of one or more trains of equal capacity operating in parallel.
- **Trenching** burying of offshore or onshore pipelines.
- **Trunkline** oil pipeline connecting large storage facilities to the production facilities, refineries and/or onshore terminals.
- **Umbilical** flexible connecting sheath, containing flexible pipes and cables.
- **Upstream** relating to exploration and production operations.
- **Vacuum** second stage of oil distillation.
- **Warm Stacking** idle plant, but one ready to resume operations in the event that a new contract is acquired. Personnel is at full strength and ordinary maintenance is normally carried out.
- **Wellhead** fixed structure separating the well from the outside environment.
- **WHB** (Wellhead Barge) vessel equipped for drilling, workover and production (partial or total) operations, connected to process and/or storage plants.
- **Workover** major maintenance operation on a well or replacement of subsea equipment used to transport the oil to the surface.