

# ANNUAL REPORT 2017



## 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

*The Annual Report contains forward-looking statements, in particular in the section 'Outlook'. 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 'Risk management' paragraph and the Notes to the financial statements 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

Austria, Bulgaria, Croatia, Cyprus, Denmark, France, Greece, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Principality of Monaco, Romania, Spain, Sweden, Switzerland, Turkey, United Kingdom

### AMERICAS

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

### CIS

Azerbaijan, Georgia, Kazakhstan, Russia, Turkmenistan

### AFRICA

Algeria, Angola, Congo, Egypt, Gabon, Ghana, Ivory Coast, Libya, Morocco, Mozambique, Namibia, Nigeria, Uganda

### MIDDLE EAST

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

### FAR EAST AND OCEANIA

Australia, China, India, Indonesia, Malaysia, Singapore, South Korea, Taiwan, Thailand

## Board of Directors and auditors of Saipem SpA

### BOARD OF DIRECTORS<sup>1</sup>

Chairman

Paolo Andrea Colombo

Chief Executive Officer (CEO)

Stefano Cao

Directors

Maria Elena Cappello, Federico Ferro-Luzzi,

Francesco Antonio Ferrucci, Guido Guzzetti,

Flavia Mazzarella, Nicla Picchi, Leone Pattofatto

### BOARD OF STATUTORY AUDITORS<sup>2</sup>

Chairman

Mario Busso

Statutory Auditors

Giulia De Martino

Riccardo Perotta

Alternate Auditors

Francesca Michela Maurelli

Maria Francesca Talamonti

(1) Appointed by the Shareholders' Meeting on April 30, 2015 for a 2015, 2016, 2017 and in any case up to the date of the Shareholders Meeting to approve the financial statements on December 31, 2017.

(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.

## Independent Auditors

EY SpA

# ANNUAL REPORT

## 2017

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Shareholders' Meeting of May 3, 2018

Notice of the Shareholders' Meeting was published in the daily newspaper Il Sole 24 Ore on March 23, 2018

# LETTER TO THE SHAREHOLDERS

Dear Shareholders,

In 2017, the average price of Brent was around \$53 per barrel, up more than 17% compared to about \$45 per barrel in 2016, supported by agreements to reduce production signed by OPEC countries and Russia, increased consumption and geopolitical tensions in the Middle East. This trend, concentrated in the latter part of the year, did not have significant effects on the growth of investments of Oil Companies, which remained much lower than pre-crisis levels. Specifically, in 2017, the sectors in which Saipem operates continued to be affected by cost reduction programmes, organisational rationalisation, restructuring and extraordinary transactions, aimed at pursuing the optimisation of operational efficiency and strategic diversification. In 2017, Saipem radically changed its organisational structure, splitting into five divisions characterised by greater operational autonomy and streamlined decision-making, and by greater responsibility on operating performance and financial results.

The Floaters business line, formerly part of the Offshore Engineering & Construction division, was included in the Onshore Engineering & Construction division, and the new XSIGHT division, dedicated to engineering services with a high added value, was created.

The challenging market environment was reflected in the new contracts acquired, which amounted to €7,399 million in the year, down 11.4% compared to 2016.

Significant acquisitions concerned the Offshore and Onshore Engineering & Construction sectors, the result of new major projects mainly in the Middle East, the Mediterranean and West Africa. The backlog as at the end of 2017 amounts to €12,363 million. Operating performance in 2017 was above expectations in the Offshore sectors, both Engineering & Construction and Drilling. The Onshore Engineering & Construction sector, excluding the effects of arbitration regarding Algerian projects, continued on the path to recover margins, while the Onshore Drilling sector continues to suffer from a much slower recovery than expected in Latin America.

The trend of debt reduction continued: the net financial position at the end of 2017 amounted to €1,296 million compared to €1,450 million at the end of 2016.

The year's key figures were:

- revenues: €8,999 million;
- adjusted EBITDA: €964 million;

- EBITDA: €862 million;
- adjusted operating result (EBIT): €440 million;
- operating result (EBIT): €126 million;
- adjusted net result: €46 million;
- net result: loss of €328 million;
- capital expenditure: €262 million;
- net debt at December 31, 2017: €1,296 million;
- new contracts: €7,399 million;
- backlog: €12,363 million.

Specifically, revenues in Offshore Engineering & Construction for 2017 amounted to €3,692 million, down 21% compared to 2016.

This was mainly attributable to lower volumes recorded in Kazakhstan and Southern Central America, which were mostly offset by higher volumes registered in North Africa and the Middle East. Adjusted EBITDA for 2017 amounted to €555 million, equal to 15% of revenues, compared to €717 million, equal to 15.4% of revenues, in 2016. The substantial stability of the margins, despite the high fall in revenues, is due to excellent operating efficiency and lower fleet idleness.

The Onshore Engineering & Construction sector reported revenues of €3,530 million in 2017. The 24% increase compared to 2016 is due to higher volumes of activity recorded in the Middle and Far East and in Kazakhstan. The adjusted EBITDA for 2017 is negative for €31 million compared to the €43 million in 2016, due to the negative effects mainly tied to the result of LPG arbitration in Algeria. Revenues for the Floaters business line amounted to €674 million, down 34% compared to the same period in 2016, due mainly to lower volumes recorded in West Africa. Adjusted EBITDA for 2017 amounted to €10 million, equal to 1.5% of revenues compared to the negative result of €90 million in 2016. The improvement is due to a project in West Africa which in 2016 had forecasted increased costs resulting from a particularly impactful acceleration programme.

The Offshore Drilling business recorded revenues of 2017 for €613 million, a decrease of 32% compared to 2016, mainly due to the lower revenues registered by some drilling vessels. Adjusted EBITDA for 2017 amounted to €321 million, compared to €454 million in 2016, with the margin on revenues equal to 52.4%. Maintaining the margin percentages, despite a significant reduction in activity, is largely attributable to the significant cost optimisation measures that were implemented. In Onshore Drilling revenues for 2017 amounted to €490 million, a 10% decrease compared to 2016, attributable mainly to a

further reduction of activity in South America. Adjusted EBITDA of 2017 amounted to €109 million compared to the €142 million of 2016, due to reduced revenues from vessels in South America, as well as start-up costs for new projects in Kuwait and Argentina. The special items relating to the reported result are due to:

- asset write-downs: in Offshore Drilling, a semi-submersible platform with its inventory, has been completely written down as there were no prospects of utilisation in the medium term. In addition, some vessels, mainly semi-submersible platforms, were partially written down following the impairment test. In Onshore Drilling, some drilling rigs, related equipment and inventory have been completely written down, as the prospect of utilisation in the medium term was null or limited;
- reorganisation expenses;
- settlement of tax disputes.

The measures implemented to counteract a negative market context led to a significant containment of capital expenditure, which in 2016 amounted to €262 million (€296 million in 2016), relating mainly to the maintenance and upgrading of the existing asset base. The investments are broken down as follows: Offshore Engineering & Construction €114 million; Onshore Engineering & Construction €8 million; Offshore Drilling €78 million; Onshore Drilling €62 million.

In 2017, the LTIFR accident index (Lost Time Injury Frequency Rate) stood at a value of 0.14, recording a further decrease of about 30% compared to the figure recorded in 2016 of 0.20, thus strengthening a long-term performance trend that is constantly improving. However, three fatal accidents

occurred in Brazil, Saudi Arabia and Singapore respectively, involving three workers from the same number of subcontractors, to whom Saipem had entrusted work relating to Offshore and Onshore projects.

In-depth investigations were carried out into these events. The causes were identified and relevant improvement measures have been partially implemented or are currently being implemented.

Attention to health and safety is at all times at the highest levels and awareness raising and training programmes, as well as risk analysis and implementation of prevention and protection measures, have been maintained on all sites, yards and vessels where Saipem operates. As proof of the soundness of the HSE Management System, in 2017 Saipem obtained confirmation of ISO 14001 and OHSAS 18001 certifications and their extension to the entire Saipem SpA Group (including all the branches of Saipem SpA and its subsidiaries in Italy and abroad).

2018 is expected to be characterised by a market scenario with weak signs of recovery, as the recent growth in the oil price has not, at the moment, determined a decisive acceleration of Oil Companies investment programmes, even though some positive signs in some market segments have been noted. The order backlog at the end of 2017, combined with prospect of commercial tenders under award, allow forecasts of around €8 billion for the financial year 2018, with a margin in terms of adjusted EBITDA in excess of 10%.

Technical investments are expected to be approximately €300 million, while the net debt is expected to be around €1.1 billion at the end of 2018.

March 5, 2018

On behalf of the Board of Directors

*The Chairman*  
Paolo Andrea Colombo



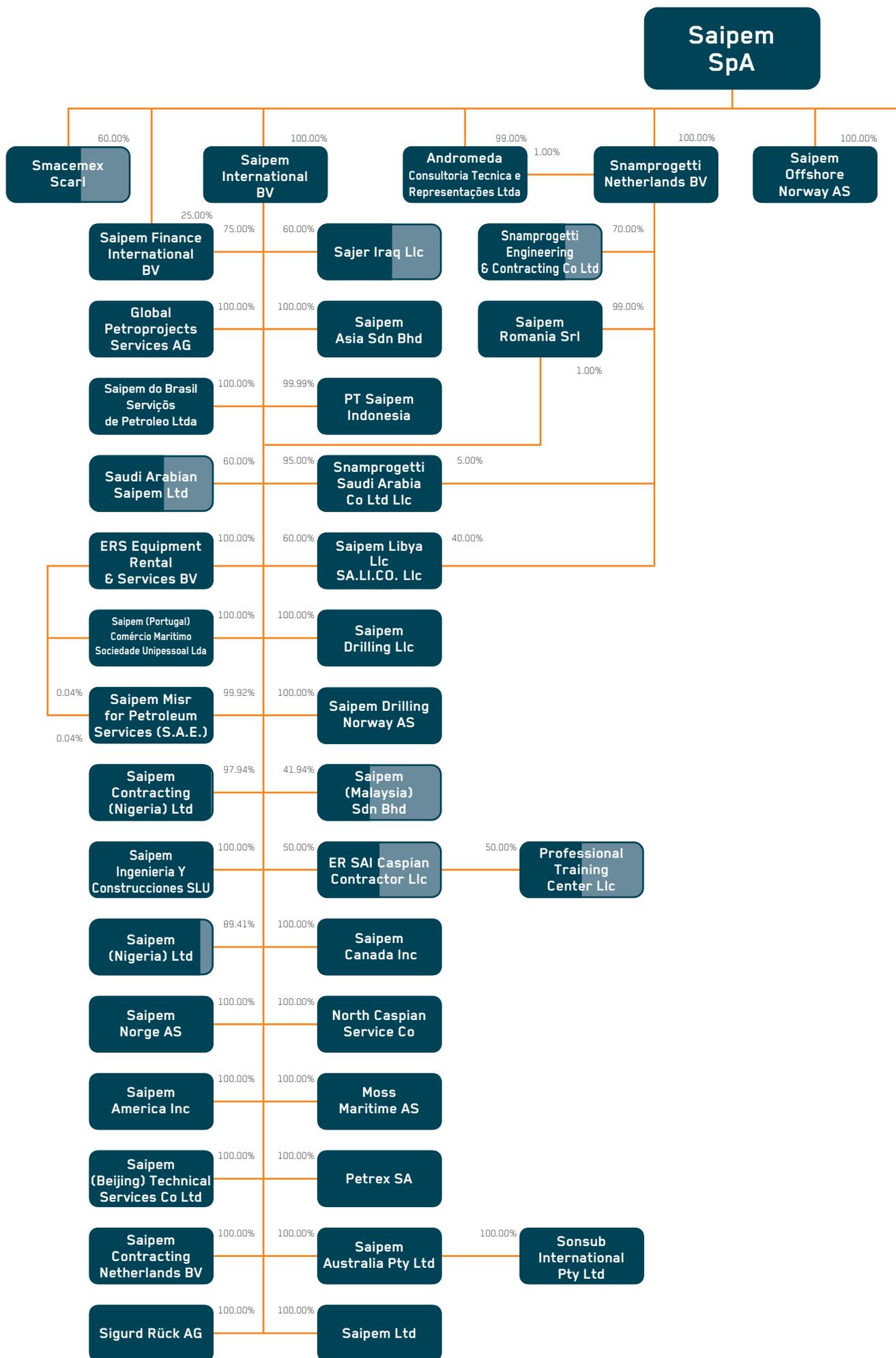
*The Chief Executive Officer (CEO)*  
Stefano Cao

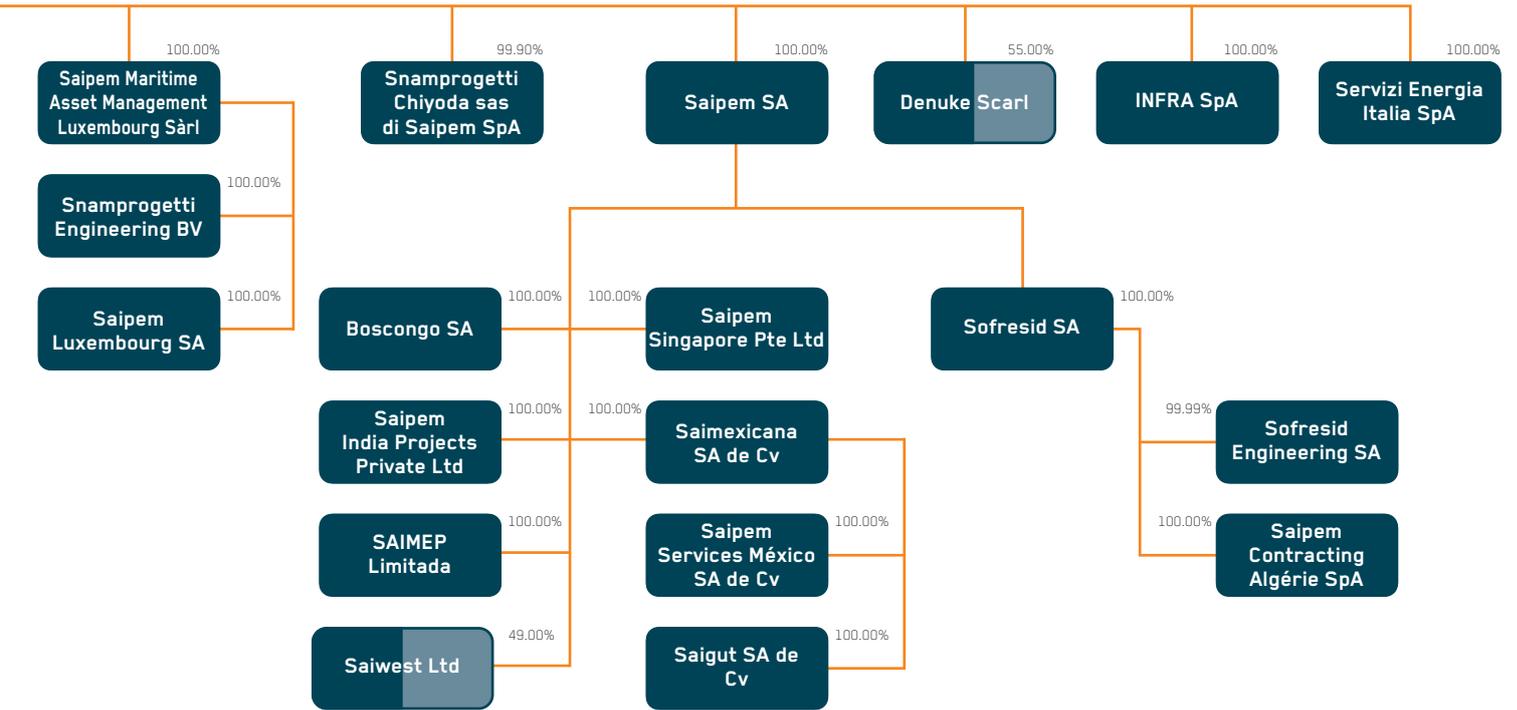




# SHAREHOLDER STRUCTURE OF THE SAIPEM GROUP

(subsidiary companies)





The chart only shows subsidiaries



## Directors' Report

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# SAIPEM SPA SHARE PERFORMANCE

During 2017, the price of ordinary Saipem shares on the stock exchange (Borsa Italiana) decreased by 31%, strongly impacted by the price per barrel and prospects for the Oil & Gas sector.

At the same time, we note that the American industry index, OSX, which includes service companies in the oil industry, fell by 20%, while the FTSE MIB index, the largest Italian securities list, recorded an increase of 12%. The security opened 2017 on the wave of optimism created at the end of 2016 by the agreement reached between the OPEC countries to limit production, which pushed up oil prices and energy sector securities.

Saipem's share benefited from this upswing, emerging among the best performers in the industry and reaching its highest share price in 2017 on January 3, at €5.65 per share.

The rally of crude oil prices already ended in January followed by a period of volatility on the major international stock markets, favoured also by the uncertainty surrounding the US presidential election. In the absence of clear signals on the return on investment in the Oil & Gas market, the Saipem share was subject to sale by those who saw a profit.

The downward trend of the stock was interrupted at the end of March thanks to strong recovery in oil prices.

At the beginning of April, the share price rose

to €4.35 in a climate of cautious optimism, to which is added the success of the bond market placement of a new Eurobond issued by Saipem worth €500 million, and by a technology and innovation event, favourably received by financial analysts.

The share remained above €3.90 up to the end of May, when OPEC decided to extend the cuts already announced at the end of 2016 for another nine months, without further reductions in production, renewing the pessimism of the market. The effect of OPEC cuts was in fact thwarted by the increase in the production of American shale and triggered a new drop in prices: the Brent dropped, for the first time since Autumn 2016, to below 45 dollars per barrel.

Mistrust also prevailed on the prospects for new investments in Oil & Gas and, consequently, in the oil services sector: the Saipem share fell to €3.24 at the end of June. In this generally negative climate, the presentation of financial results at the end of July fuelled concerns for prospects in 2018 and beyond mainly due to the low number of new contracts in the first half of the year.

The share reached the low for the year on August 30, at €2.96 per share.

From the beginning of September the price of oil inverted the trend and began a trend that continued to the end of the year. The markets

Key Stock Exchange indices and figures		Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
Share capital	(€)	441,410,900	441,410,900	441,410,900	2,191,384,693	2,191,384,693
Number of ordinary shares		441,297,615	441,301,574	441,301,574	10,109,668,270	1,010,966,841
Number of savings shares		113,285	109,326	109,326	106,126	10,598
Market capitalisation	(€ million)	6,860	3,872	3,324	5,419	3,872
Gross unitary dividend:						
- ordinary shares	(€)	-	-	-	-	-
- savings shares	(€)	0.05	0.05	-	-	-
Price/earning ratio per share: <sup>(1)</sup>						
- ordinary shares	(€)	..	..	..	..	..
- savings shares	(€)	..	..	..	..	..
Price/cash flow per share: <sup>(1)</sup>						
- ordinary shares	(€)	12.45	4.18	21.58	16.88	9.49
- savings shares	(€)	13.70	8.59	27.23	170.39	99.12
Adjusted price/earning ratio per share:						
- ordinary shares	(€)	..	21.51	..	23.98	84.17
- savings shares	(€)	..	44.26	..	242.01	879.11
Price/adjusted cash flow ratio per share:						
- ordinary shares	(€)	12.45	4.18	21.58	4.28	4.02
- savings shares	(€)	13.70	8.59	27.23	43.20	41.95

(1) Figures pertain to the consolidated financial statements.

gradually regained trust in the industry's prospects and Saipem's share rose, also thanks to the push from the announcement of new contracts.

The positive trend for Saipem's share suffered a set back on the eve of the presentation of the third quarter results. The publication of the results reassured the market, triggering a new recovery in the share price, which reached €3.92 on November 7.

On November 14, the Saipem share was unexpectedly excluded from the MSCI World index, due to new and more restrictive criteria for admission to the equity index, causing

substantial sales orders to automatically be part of 'Index' funds, which passively replicate the index. Due to this exclusion the share price dropped to €3.40. The share then went through a period of uncertainty which concluded in the middle of December when it began a decidedly upward trend pushed by the increase in oil prices, following the agreement reached by OPEC and Russia to extend production cuts to 2018 and by the announcement of new contracts.

The share finished the year on December 29 at €3.83 per share, in a climate of renewed trust by the markets in the improvement of

Listings on the Milan Stock Exchange	(€)	2013	2014	2015	2016	2017
Ordinary shares:						
- maximum		40.51	26.29	16.06	9.17	5.65
- minimum		15.86	10.46	8.94	3.02	2.96
- average		24.32	20.88	11.33	4.23	3.83
- year end		19.57	11.05	9.47	5.36	3.83
Savings shares:						
- maximum		214.68	128.74	110.71	62.00	60.00
- minimum		98.14	99.49	58.27	39.00	40.00
- average		150.28	113.96	96.28	57.17	46.13
- year end		104.89	110.71	58.27	54.10	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 2013-March 2018



the Oil & Gas industry's prospects and in the oil services sector, upheld by a Brent price that reached \$70/barrel.

On May 22, Saipem implemented the reverse stock split approved by the 'Extraordinary Shareholders Meeting' on April 28, 2017, in the ratio of 1 new share for every existing 10 shares. The existing 10,109,668,270 ordinary shares, following a share capital increase in 2016, are now 1,010,966,827 new ordinary shares and the existing 106,126 savings shares are now 10,612 new savings shares, all without indicating nominal value. The price of the share indicated in this document has been reallocated to the new values after the reverse stock split.

Saipem's market capitalisation at the end of the year was approximately €3.8 billion.

In terms of share liquidity, 2.4 billion shares were traded during the year, with a daily average in the period of 9.3 million shares exchanged. The value of shares traded amounted to €9.1 billion, while in 2016 it was slightly below €8.8 billion.

As regards savings shares, which are convertible at par with ordinary shares, at the end of December 2017 there were 10,598. During the year their value decreased by 26% having reached a share price of €40.00 at the end of the period.

# 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 of 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.
- **OPEC** Organization of the Petroleum Exporting Countries.
- **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.
- **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.
  - **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.
  - **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 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.
- **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-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.
  - **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.
  - **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.

# OPERATING REVIEW

## Market context

2017 closed with weak signs of recovery linked to an expectation of recovery in overall demand and an increase in inflation, which led to a global GDP growth compared to 2016 of 3.6%, recording the highest rate since 2011. There was a recovery both in emerging markets, such as in Latin America, and in advanced economies, while there was a slowdown in the Middle East and North Africa. The phase of depreciation of the euro against the dollar concluded, ending 2016 with an exchange rate at minimum historic values of recent years.

In 2017, the price of oil averaged around \$53 per barrel, up compared to the average values for 2016 (around \$45 per barrel), supported in large part by agreements to reduce production signed by OPEC countries and Russia. In the latter part of the period there was a further recovery of the price to the point of exceeding \$60 per barrel, influenced by the increase in consumption, the persistence of geopolitical tensions in critical areas such as the Middle East and the renewal of agreements to reduce production between OPEC countries.

With regard to investments in the Oil & Gas industry, after two consecutive years of significant decrease, 2017 recorded a slight recovery, although almost exclusively in the North American drilling market, linked to non-conventional developments. 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 over the year. During 2017, the main companies in the industry continued to adapt to a lower level of activity, promoting a strategy to reduce costs and resources. 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 the businesses.

## New contracts and backlog

New contracts awarded to the Saipem Group in 2017 amounted to €7,399 million (€8,349 million in 2016).

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

45% in the Onshore Engineering & Construction sector, 4% in the Offshore Drilling sector, 3% in Floaters and 2% in the Onshore Drilling sector.

New contracts to be carried out abroad made up 99% and contracts awarded by Eni Group companies 14% of the overall figure.

Acquisitions of the parent company Saipem SpA amounted to 26% of the total.

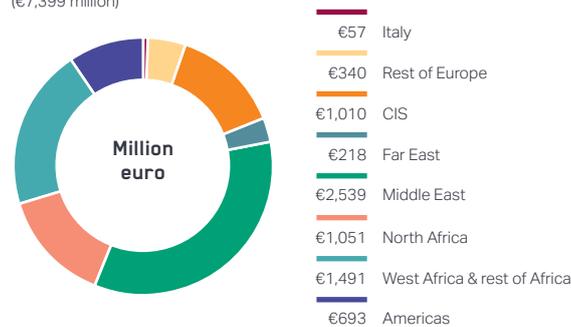
The backlog of the Saipem Group as at December 31, 2017 stood at €12,363 million. The backlog at December 31, 2017 is net of the cancellation of backlog orders, amounting to €256 million, of the business Traveaux Maritime, sold to third parties.

The breakdown of the backlog by sector is as follows: 38% in the Offshore Engineering & Construction sector, 35% in the Onshore Engineering & Construction sector, 12% in Floaters, 8% in Offshore Drilling and 7% in Onshore Drilling.

96% of orders are on behalf of overseas clients, while orders from Eni Group companies represent 6% of the overall backlog. The parent company Saipem SpA accounted for 27% of the total order backlog.

## NEW CONTRACTS BY GEOGRAPHIC AREA

(€7,399 million)



## ORDER BACKLOG BY GEOGRAPHIC AREA

(€12,363 million)



Saipem Group - New contracts awarded during the year ended December 31						
	(€ million)		2016 <sup>(1)</sup>		2017	
	Amount	%	Amount	%	Amount	%
Saipem SpA	1,472	18	1,947	26		
Group companies	6,877	82	5,452	74		
<b>Total</b>	<b>8,349</b>	<b>100</b>	<b>7,399</b>	<b>100</b>		
Offshore Engineering & Construction	5,274	63	3,404	46		
Onshore Engineering & Construction	2,170	26	3,310	45		
Floating	31	-	256	3		
Offshore Drilling	134	2	303	4		
Onshore Drilling	740	9	126	2		
<b>Total</b>	<b>8,349</b>	<b>100</b>	<b>7,399</b>	<b>100</b>		
Italy	703	8	57	1		
Outside Italy	7,646	92	7,342	99		
<b>Total</b>	<b>8,349</b>	<b>100</b>	<b>7,399</b>	<b>100</b>		
Eni Group	309	4	1,040	14		
Third parties	8,040	96	6,359	86		
<b>Total</b>	<b>8,349</b>	<b>100</b>	<b>7,399</b>	<b>100</b>		

(1) The results of previous periods are published in line with the new organisational structure.

Saipem Group - Backlog as at December 31						
	(€ million)		2016 <sup>(1)</sup>		2017	
	Amount	%	Amount	%	Amount	%
Saipem SpA	4,899	34	3,388	27		
Group companies	9,320	66	8,975	73		
<b>Total</b>	<b>14,219</b>	<b>100</b>	<b>12,363</b>	<b>100</b>		
Offshore Engineering & Construction	5,188	36	4,644	38		
Onshore Engineering & Construction	4,616	32	4,396	35		
Floating	1,960	14	1,542	12		
Offshore Drilling	1,241	9	931	8		
Onshore Drilling	1,214	9	850	7		
<b>Total</b>	<b>14,219</b>	<b>100</b>	<b>12,363</b>	<b>100</b>		
Italy	822	6	444	4		
Outside Italy	13,397	94	11,919	96		
<b>Total</b>	<b>14,219</b>	<b>100</b>	<b>12,363</b>	<b>100</b>		
Eni Group	983	7	709	6		
Third parties	13,236	93	11,654	94		
<b>Total</b>	<b>14,219</b>	<b>100</b>	<b>12,363</b>	<b>100</b>		

(1) The results of previous periods are published in line with the new organisational structure.

## Capital expenditure

**Capital expenditure** in 2017 amounted to €262 million (€296 million in 2016) and mainly related to:

- €114 million in the Offshore Engineering & Construction sector, relating to the maintenance and upgrading of the existing asset base;
- €8 million in the Onshore Engineering & Construction sector essentially for the purchase of equipment;

- €78 million in the Offshore Drilling sector for class reinstatement works on the semi-submersible platform Scarabeo 9, the Jack-up Perro Negro 4 and the Tender Barge TAD, as well as maintenance and upgrading of the existing asset base;
- for Onshore Drilling €62 million for the upgrading of rigs for operations in Kuwait, Kazakhstan and Romania in the framework of two contracts in the backlog, as well as the upgrading of other assets.

To summarise, the investment for the 2017 period can be divided up as follows:

Capital expenditure	(€ million)	2016	2017
Saipem SpA		59	57
Other Group companies		237	205
<b>Total</b>		<b>296</b>	<b>262</b>
Offshore Engineering & Construction		117	114
Onshore Engineering & Construction		8	8
Offshore Drilling		94	78
Onshore Drilling		77	62
<b>Total</b>		<b>296</b>	<b>262</b>

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

# OFFSHORE ENGINEERING & CONSTRUCTION

## General overview

The Saipem Group possesses a strategic, technologically advanced and versatile fleet coupled with a world class engineering and project management expertise.

These distinctive skills and competencies, integrated with a strong presence in strategic frontier markets due to the presence of manufacturing yards in some countries, Nigeria, Angola, Brazil, Saudi Arabia and Indonesia, ensure an industrial model that is particularly suitable for EPCI projects.

The most recent addition to the fleet is the pipelaying vessel, Castorone, a 330-metre long and 39-metre wide mono-hull, designed to carry out the most demanding pipelaying projects for large diameter pipes and in deep water but with the necessary flexibility and productivity to be effective even in projects that are less complex. 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 conditions of pipe flooding using a special patented clamp), the highly automated firing line made up of 7 workstations, the articulated stinger for pipelaying in shallow and deep-water with an advanced control system, and the capacity to operate in extreme environments (Ice Class AO).

With regard to developing deep water reserves, the vessel that sets the standard is the 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 of deep-water projects. The other vessels that complete the fleet for the development of deep-water reserves are the FDS, with dynamic positioning and 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.

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. The Castoro Sei, a semi-submersible pipelay vessel capable of laying large diameter subsea pipelines 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 supports the innovation and technological progress of underwater technologies, continuing to develop, with the Sonsub business line, underwater equipment among which: ROV, able to perform complex and deep water operations efficiently and safely; a new generation of autonomous ROV that remain underwater, like the Hydrone, used for support during the entire Life of Field; the study and industrialisation of underwater process and treatment systems, such as SPRINGS, which deals with the underwater water treatment of sea water for injection into the wells that was developed with Total and Veolia.

## Market conditions

In 2017, the Offshore Engineering & Construction market was substantially in line with last year in terms of investments by oil companies, with some positive signs in North America and Europe, and overall stability in other regions. Final investment decisions (FID) taken in 2017 increased, compared to 2016 which was the lowest year on record, but the impact on investments by oil companies and on new contracts still remains limited. Among the most notable of several significant

developments are Coral Area 4 (Eni) in Mozambique, South Pars phase 11 (NIOC) in Iran, Liza phase 1 (ExxonMobil) in Guyana and Leviathan I (Noble Energy) in Israel.

The subsea developments segment concluded with an increase in installations in 2017 compared with the previous year. In terms of units installed, the Gulf of Mexico led activities with Liza (ExxonMobil) and Mad Dog 2 (BP), the North Sea with the Cheviot project (Alpha Petroleum) and Africa, where, in the second half of 2017, phase 2 of the development of the Zohr (Petrobel) giant field in Egypt was assigned.

In 2017, the subsea pipeline segment recorded an increase in kilometres laid compared to the minimum reached in 2016, with strong growth in the Mediterranean area thanks also to the TurkStream gas pipeline (Gazprom) entered in the installation phase. The Asia-Pacific area is confirmed as an area of great activity in this sector, although slightly down compared to 2016, followed by Latin America which is substantially stable compared to the previous year. The overall trend in the use of vehicles recorded a slight recovery compared to the minimum in 2016.

In the fixed platforms sector, there was a slight increase in the demand for installed units, especially for platforms weighing more than 5,000 tonnes, compared to the historical minimum reached in 2016. Installations of fixed platforms over the next few years are expected to decrease given the low volumes of activity recorded in recent years in the fabrication segment. Geographically, the most active areas are Asia-Pacific and the Middle East. In the Asia-Pacific area, the activity involved offshore projects in Malaysia, India and Thailand, while in the Middle East it involved Safaniya, Hasbah projects in Karan in Saudi Arabia (Saudi Aramco) and Umm Lulu and Nasr (Adma-Opco) in the United Arab Emirates.

With regard to the so-called 'Non Oil' sectors and in particular the Renewables and Decommissioning sectors, although the markets are still in its early phases, 2017 saw some awards mainly in Northern Europe and North America.

## Capital expenditure

Capital expenditure in the Offshore Engineering & Construction sector mainly

related to the maintenance and upgrading of the existing vessels.

## New contracts

The most significant contracts awarded to the Group during 2010 were:

- for Petrobel, additional work orders regarding the contract for Engineering, Procurement, Construction and Installation activities in relation to the 'Optimised Ramp Up' phase of the 'supergiant' Zohr Field Development Project situated in the Mediterranean Sea off the Egyptian coast;
- for Saudi Aramco, in the framework of the existing Long Term Agreement renewed in 2015 to 2021, two new contracts in Saudi Arabia. The scope of work of the first contract includes design, engineering, procurement, construction and installation of 19 jackets for the development of the Marjan, Zuluf, Berri, Hasbah and Safaniya fields, in the Persian Gulf. The scope of work of the second contract includes the engineering, procurement and construction of a 42-inch diameter offshore pipeline in place of the existing one, as well as other activities aimed at upgrading the Manifa water injection system;
- for Eni Angola, work orders related to the West Hub Development project involving the engineering, procurement, construction and installation necessary for the development of the Vandumbu underwater field in deep water and the construction and installation of umbilicals, risers and flowlines necessary for the development of Block 15/06;
- for ExxonMobil, an EPCI contract for engineering, procurement, construction and installation of risers, flowlines, related structures and connections to develop the Lisa field located 120 miles 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;
- for Eni Ghana, a new contract that includes the engineering, procurement and construction of infrastructures needed to boost the capacity of the gas stations situated in the vicinity of the ports of Takoradi and Tema in Ghana;
- for Nord Stream 2 AG, a new contract for the construction of the last section of the pipeline crossing the Baltic Sea and the shore approach in Greiswald, Germany;

- for BP, a contract in the North Sea that encompasses dismantling of the Miller platform topside and jacket;
- for Dragados Offshore de Mexico SA (DOMSA), a new contract in the Gulf of Mexico regarding transport and installation of the compression platform CA-KU-A1 using the semi-submersible vessel Saipem 7000.

## Work performed

The biggest and most important projects underway or completed during 2017 were as follows.

In Saudi Arabia, for Saudi Aramco:

- engineering and procurement activities began on the **19 jackets** and **Manifa** projects, and engineering, procurement and fabrication activities related to the **Safaniya** and **Marjan Zulf** projects have been completed, all under the framework agreement with Saudi Aramco; these contracts include design, engineering, procurement, construction, installation and commissioning of subsea systems, and include underwater laying of pipes and umbilical cables and placing platform decks and jackets;
- activities continued under the **Arbi 20/23** project for the engineering, procurement, construction, transport and installation of structures, platforms and pipelines;
- in the framework of the **Karan** project, work is underway involving 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;
- the fabrication and installation activities are 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.

In Guyana, for ExxonMobil, engineering and procurement activities are ongoing on the **Liza** project for the engineering, procurement, construction and installation of risers, flowlines, related structures and connections to develop the field located 120 miles 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.

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, planning and engineering began for the **CA-KU-A1** project, which includes the transportation and installation of a compression platform in the Gulf of Mexico.

In Venezuela, for PDVSA, at the end of the first phase, the **Mecor** project, which included the installation of underwater pipelines, was completed early.

In Indonesia, for BP Berau Ltd, engineering and procurement activities are nearing completion and fabrication activities are ongoing for the **Tangguh LNG Expansion** project. The project provides for the installation of two unmanned platforms and subsea pipelines.

In China, work has been completed for Husky Oil China Ltd on the **Liwan 3-1** project, which encompassed engineering, procurement and installation services for two pipelines, umbilicals, and the transport and installation of a subsea production system that links the wellheads to a processing platform.

In West Africa:

- installation is underway for Total Upstream Nigeria Ltd for the subsea development of the **Egina** field. 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, installation was completed for the **East Hub Development** project, which encompassed the provision of 5 flexible risers and 20 km of rigid flowlines, as well as the installation of SURF facilities which included umbilical sections, rigid spools, well jumpers and 14 PLETs;
- for Eni Angola, activities began for the work related to the **West HUB Development** project, which includes the construction and installation, in deep water, of umbilicals, risers and flowlines necessary for the development of Block 15/06;
- for Eni Angola, procurement and engineering began relating to the Vandumbu project, which includes engineering, procurement, construction and installation necessary for the development of the Vandumbu field in deep water;
- for Eni Ghana, engineering and procurement began for the **EPIC Takoradi** project, which includes engineering, procurement and construction of the infrastructures needed to boost the capacity of the gas stations situated in the vicinity of the ports of Takoradi and Tema in Ghana.

In Egypt:

- for Petrobel, installation concluded for the **Zohr** project, encompassing expansion project, which encompassed the engineering, procurement, construction and installation of a gas export pipeline and service pipelines, as well as works for the development of six wells in deep waters and the installation of umbilical cables.
- for Petrobel, work began for the **Zohr-Oru Ramp Up** project, which includes engineering, procurement, construction and installation for the 'Optimised Ramp Up' phase of the Zohr gas field development project.

In Brazil, work was completed for Petrobras on the **Lula Norte, Lula Sul and Lula Estremo Sul** project, which included services of engineering, procurement fabrication and installation of three subsea pipelines and two gas export manifolds.

In the North Sea:

- on behalf of Statoil, activities continue on the **Johan Sverdrup Export Pipeline** project, which encompasses the installation of a gas pipeline and an oil pipeline for the Mongstad refinery;
- for Statoil, lifting and installation of floating wind turbines for the **Hywind Scotland** project were completed;
- for BP, activities continued for the **Miller decommissioning** project, which include dismantling of the Miller platform topside and jacket;
- for Dong Exploration & Production, activities continue for the **Hornsea Wind Power** project, which involves the transport and installation of offshore platforms.
- for Nord Stream 2 AG, preparation began for the **Landfall** project for the construction of the last section of the pipeline crossing the Baltic Sea and the shore approach in Greiswald, Germany.

In Azerbaijan, work continued for BP on the **Shah Deniz 2** contract involving the transportation and installation of jackets, topsides, subsea production systems and

subsea structures for stage 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, support for the vessel and management of a maritime base.

In Kazakhstan:

- for the North Caspian Operating Co (NCO) and for the **Installation pipelines** project, work was completed for the construction of two pipelines, which connect D island in the Caspian Sea to the Karabatan onshore plant. The contract included the engineering, the procurement of the welding materials, the conversion and the preparation of vessels, the dredging, the installation, the burial and the pre-commissioning of the two pipelines;
- work has been completed for Agip Kazakhstan North Caspian Operating Co NV on the contract for the **EP Clusters 2 and 3** project in the framework of the Kashagan field development. The contract includes services of engineering, procurement, fabrication, and transportation of two topside production manifold modules. the EPC 2 module was completed and was delivered in the last quarter of the year;
- work continued 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 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. Operations in Italy began in November 2017 while operations in Albania are expected to begin in the second quarter of 2018.

## Offshore fleet at December 31, 2017

<b>Saipem 7000</b>	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.
<b>Saipem FDS</b>	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.
<b>Saipem FDS 2</b>	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.
<b>Castoro Sei</b>	Semi-submersible pipelay vessel capable of laying large diameter pipe at depths of up to 1,000 metres.
<b>Castorone</b>	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.
<b>Normand Maximus</b>	Dynamic positioning ship (acquired through a long-term lease) for laying umbilicals and flexible lines up to a depth of 3,000 meters. 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.
<b>Saipem 3000</b>	Mono-hull, self-propelled d.p. derrick crane ship, capable of laying flexible pipes and umbilicals in deep waters (3,000 m) and lifting structures of up to 2,200 tonnes.
<b>Castoro II</b>	Derrick lay barge capable of laying pipe of up to 60" diameter and lifting structures of up to 1,000 tonnes.
<b>Castoro 10</b>	Trench/pipelay barge capable of burying pipes of up to 60" diameter and of laying pipes in shallow waters.
<b>Castoro 12</b>	Pipelay barge capable of laying pipes of up to 40" diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
<b>Castoro 16</b>	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.
<b>Ersai 1</b>	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.
<b>Ersai 2</b>	Work barge equipped with a fixed crane capable of lifting structures of up to 200 tonnes.
<b>Ersai 3</b>	Support barge with storage space, workshop and offices for 50 people.
<b>Ersai 4</b>	Support barge with workshop and offices for 150 people.
<b>Bautino 1</b>	Shallow water post trenching and backfilling barge.
<b>Bautino 2</b>	Cargo barge for the execution of tie-ins and transportation of materials.
<b>Ersai 400</b>	Accommodation barge for up to 400 people, equipped with gas shelter in the event of an evacuation due to H <sub>2</sub> S leaks.
<b>Castoro XI</b>	Heavy-duty cargo barge.
<b>Castoro 14</b>	Cargo barge.
<b>Castoro 15</b>	Cargo barge.
<b>S42</b>	Cargo barge, currently used for storing the J-lay tower of the Saipem 7000.
<b>S43</b>	Cargo barge.
<b>S44</b>	Launch cargo barge, for structures of up to 30,000 tonnes.
<b>S45</b>	Launch cargo barge, for structures of up to 20,000 tonnes.
<b>S46</b>	Cargo barge.
<b>S47</b>	Cargo barge.
<b>S 600</b>	Launch cargo barge, for structures of up to 30,000 tonnes.

*The vessel Bar Protector was decommissioned on July 4, 2017.*

*Castoro 8: completely devalued at December 31, 2016, is currently used as a permanent work platform, moored at a dock.*

# 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

2017 showed the first signs of improvement after the crisis marked by the collapse in oil prices and the subsequent reduction in investments by oil companies. The total of awards in 2017, in the Onshore Engineering & Construction sector (Upstream, Midstream and Downstream), stabilised at values equivalent to those of the previous year, halting the trend of a diminishing market, recorded in the last two years. An evident effect of the work by OPEC and Non-OPEC countries in trying to balance the oil supply and demand which the Upstream segment has also benefited from by recovering market shares. In the meantime, service companies have reorganised themselves, improving their processes, constantly seeking greater efficiency and productivity in order to maintain a competitive position in an increasingly challenging market. Work that rewarded the 'Peer Group', a group of international companies which are Saipem's peers, which in 2017 increased its market share after the significant decline recorded in 2016. 2017 also saw a growing interest from service companies, typically Oil & Gas, in the renewable energy market. The development of 'clean energy' is no longer a niche market, and many service companies have included new products (solar, wind, biogas) in their development programmes. The Upstream segment returned to interesting volumes thanks also to the progressive rebalancing of oil and gas

demand and a slow-growing oil price in 2017. The Midstream segment (Pipelines, LNG), characterised by large projects, is changing because of the continuous delays in the assignment of the most significant projects, in particular in the LNG sector. The Midstream segment is mainly supported by allocations in the Pipeline sector. The Downstream segment (Refining, Petrochemicals and Fertilisers), influenced by product demand/supply policies, represents a significant share of EPC projects awarded in 2017, with the greatest number of contracts in the Refining segment. Worldwide, EPC contracts have been awarded in over 30 countries, the first three (USA, Russia and Iran) covering 50% of the total value awarded in 2017. For specific areas, the largest share of EPC projects has been awarded in the Middle East (Iran, Oman, Bahrain, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates), in particular in the Refining, Upstream, Petrochemical, Pipeline and Fertiliser segments. Some of these projects, particularly in Iran, despite being assigned to a contractor, remain subject to obtaining the necessary funding. The area of North America (mainly the United States) follows, with awards in the Pipeline, Petrochemical and Refining segments and the CIS area (mainly Russia), characterised by Oil & Gas producing countries and favoured by policies to support exports, which saw the awarding of EPC contracts in the Upstream, LNG, Petrochemical, Pipeline and Refining segments. The Asia-Pacific area (major projects were awarded in Pakistan, Brunei to Indonesia), has operations distributed in almost all the Onshore Engineering & Construction segments (Refining, Fertilisers, Upstream, Pipelines and Petrochemicals) while in North Africa (Algeria and Egypt) most new EPC contracts were in the Upstream segment. There were minor awards in Europe (Turkey, Spain and Italy) and South America (Chile and Argentina), in the Pipelines, Refining, LNG and Upstream segments.

The Upstream segment grew after a 2016 that had been hit hard by the substantial reduction in investment by oil companies, and unfavourable market conditions which caused the postponement or cancellation of many new projects. At present, the effort made by service companies to contain costs and remain competitive and the apparent stabilisation of oil prices on values that are more compatible with investments have led to the awarding of important contracts in the Middle East (Iran, Kuwait, Oman, Iraq and Saudi Arabia), in the CIS area (Russia), in North Africa

(Algeria and Egypt), in Asia-Pacific (Indonesia), confirming the positive trend already visible in the first half of this year. In the short to medium term, the Upstream segment continues to maintain good potential for development linked to the discovery of and the subsequent development of new fields. A part of future investments will however be linked to the need to maintain and replace the production of existing fields, which are gradually declining.

The Pipeline segment is supported by EPC contract awards in North America (USA), confirming the need for continuous development of its internal network.

The demand for pipelines remains interesting in North America, thanks to the prospects of widening connections with both Mexico and Canada. In the Middle East the major projects are located in Iraq and Kuwait and there are also minor projects in Oman and Saudi Arabia. Assignment of projects also in Europe (Turkey), in the Asia-Pacific area (Australia and Thailand) and in South America (Chile and Colombia). The segment continues to be dominated by awards of contracts for pipelines for gas transport, and only to a lower extent for the transportation of oil or refinery products. The phenomenon is justified by a continuing abundance of available gas, in particular for those areas that are developing unconventional fields, which must necessarily be transported from the production fields to the markets of use. Pipeline projects usually have very long authorisation processes, where the energy policies of a country often collide with the opposition from local communities. As a result, pipeline project awards can also be subject to considerable delays.

The value of EPC contracts in the LNG segment has been reduced for the third consecutive year with few projects awarded. The most important EPC contract was awarded in the CIS area (Russia), while smaller contracts involved 'Small scale' projects (small LNG plants) and infrastructures (storage). Several projects that were awarded have not yet started due to delays in the approval of funding. The uncertainty in new investments is probably caused by an abundant production capacity due to the increase in world production of LNG, also associated with the start-up of new liquefaction plants in North America and Australia and with the persistence of general market prudence, which induced a strong push to find economies of scale or innovative solutions (mid-scale, modularisation).

The Refining segment shows a considerable recovery in volumes with a series of acquisitions that lead the segment to grow again, after two years of reduction and a first part of the year spent in distress. In 2017, most EPC contract awards were located in

the Middle East (Oman, Bahrain, Iran, United Arab Emirates, Kuwait and Saudi Arabia) and in the Asia-Pacific area (the most significant project is in Pakistan). Awards of minor projects also in the CIS area (Russia and Turkmenistan), Europe (Spain, Italy and Turkey) and North Africa (Egypt). Demand for oil products is growing and is mainly supported by the increase in consumption in the transport and petrochemicals sector, especially in non-OECD countries. But there has been a slowdown in demand growth as a result of a steady increase in vehicle efficiency, development and the use of alternative fuels.

The Petrochemical segment confirms positive signs already recorded in the first half of this year, returning to growth after a 2016 marked by a considerable shortage of awarded projects. The most important acquisitions were recorded in the Middle East (Iran and Saudi Arabia), North America (United States), CIS (Russia) and North Africa (Egypt).

Acquisitions of minor projects located also in Asia-Pacific (China and several other countries). Investments in the segment are related to the trend of global demand for petrochemical products (in particular, ethylene, methanol, propylene) and are characterised by continual research into both conventional technologies, such as propane dehydrogenation (PDH) and non-conventional, from gas to propylene (GTP), from gas to olefins (GTO), from carbon to olefins (CTO), from methanol to olefins (MTO).

Investments are also favoured by the continuous search for economies of scale and integration with refinery complexes. The awards of new EPC projects in the Fertiliser segment remain at the lowest levels compared to the average of acquisitions in recent years, despite the segment recovering in the second half of the year. The major projects awarded are located in the Asia-Pacific (Brunei) and Middle East (Oman). This segment is affected by an abundant production capacity and a low price of products which does not favour further investment in the short term and penalises production by both the small plants and the old and not very efficient ones.

A phenomenon which could lead to the closure of the most obsolete plants, rebalancing demand with supply, and stimulating the recovery of investment with the construction of more modern and efficient plants. The Fertiliser segment also features small-medium scale investment for expansion and upgrading of already existing plants. 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 the Onshore Engineering & Construction sector in the reporting period 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 2017 were:

- for Kuwait Oil Co (KOC), a new contract for engineering, procurement, construction and commissioning for the Feed Pipelines for New Refinery project regarding the development of the new Al Zour refinery, located in south Kuwait;
- for Saudi Aramco, a new contract for engineering, procurement, construction and commissioning for the Hawaiyah Gas Plant Expansion project regarding the expansion of the Hawaiyah gas treatment plant in the south-eastern part of the Arabian Peninsula;
- for Caitan, a new contract for engineering, procurement, construction and commissioning within the scope of the Spence Growth Option project for the development of a desalination plant and water pipelines in the north of Chile. The project will provide desalinated water to the Spence mine located at 1,710 metres above sea level. The scope of the work also includes the construction of three pumping stations and the control and maintenance of related systems;
- for Pemex, new contracts for engineering, procurement, construction and commissioning and the launch of one of the units of the 'General Lazaro Cardenas' refinery in Minatitlan, of five units of the 'Francesco I' refinery in Madero and of one unit of the 'Miguel Hidalgo' refinery located in Tula de Hallende, Mexico.

## Work performed

The biggest and most important projects underway or completed during 2017 were as follows.

In Saudi Arabia:

- for Saudi Aramco, the design 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;
- 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 km from the city of Jazan, in south-western Saudi Arabia. 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 six Sulphur Recovery Unit (SRU) trains and the associated storage systems. The scopes of work of both packages include engineering, procurement, construction, pre-commissioning, assistance to commissioning and performance tests of the concerned facilities;

- 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 continues on the **Complete Shedgum-Yanbu Pipeline Loop 4&5** project, which includes detailed engineering, procurement of all materials, excluding the line pipe supplied by the client, construction, pre-commissioning and assistance with commissioning;
- for Saudi Aramco, work continued on the **Khurais EPC** project that encompasses the extension of onshore production facilities in the Khurais, Mazajili, Adu Jifan, Ain Dar and Shedgum fields.

In the United Arab Emirates:

- activities were completed on the contract for Abu Dhabi Gas Development Co Ltd which is part of the development of the high sulphur content **Shah** sour gas field. The development project encompassed the treatment of 28 million cubic metres of gas a day from the Shah field, the separation of the sulphur from the gas, and the transportation of the gas product lines by pipeline to the national gas network in Habshan and Ruwais, in the north of the Emirate;
- work has been completed on a project for the Etihad Rail Co in Abu Dhabi encompassing the engineering and construction of a **railway line** for the transportation of granulated sulphur, linking the natural gas production fields of Shah and Habshan (located inland) to the port of Ruwais.

In Kuwait:

- engineering and procurement activities have started 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 Al Zour refinery located in south Kuwait;

- work continued for the Kuwait Integrated Petroleum Industries Co (KIPIC) on the **Al-Zour Refinery**, Package 4, in joint venture with Essar Projects Ltd. 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;
- activities were completed on the **BS 171** contract for Kuwait Oil Co (KOC), which encompassed the engineering, procurement and construction of a new booster station comprising 3 high- and low-pressure gas trains for the production of dry gas and condensate.

In Iraq, work was completed for Fluor Transworld Services Inc and MorningStar for General Services Llc (ExxonMobil) on the **West Qurna** project. The contract encompassed engineering, procurement, construction, pre-commissioning and commissioning of water treatment and conveyance infrastructure, a pipeline and a water injection system;

In Chile, for Caitan engineering and procurement activities began 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 located at 1,710 metres above sea level. The scope of the work also includes the construction of three pumping stations and the control and maintenance of related systems;

In Kazakhstan, work continued for TengizchevrOil (TCO), for the **Future Growth and Wellhead Pressure Management** project. The contract covers the procurement, fabrication and pre-assembly tests of beams for pipeline support and transport in the Tengiz field.

In Indonesia, for BP Berau Ltd, work continues for the engineering, procurement and subcontracting activities and on site preparation activities began and necessary infrastructure was built 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 Turkey, work is continuing for Star Refinery AS on the **Aegean Refinery** project,

encompassing the engineering, procurement and construction of a new refinery with a marine terminal consisting of one import jetty and two export jetties.

In Nigeria:

- work continued for Dangote Fertilizer on the **Dangote** project for a new ammonia and urea production complex. The scope of work encompasses engineering, procurement and construction of two twin production streams and related utilities and off-site facilities located at the Lekki Free Trade Zone, Lagos State;
- for Southern Swamp Associated Gas Solution (SSAGS), construction activities are nearing completion at one of the four sites, while activities continue at the other three sites for the **Southern Swamp** contract, which includes 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. In the last months of 2017 the integration phase of the Tunu flow station with the existing station continued and is expected to be completed within the first months of 2018.

In Italy:

- for Ital Gas Storage (IGS), work is almost complete on engineering and procurement, and construction is underway for the EPC **Cornegliano Laudense Natural Gas Storage Plant** project encompassing the development of natural gas storage plants in Cornegliano Laudense, in the province of Lodi;
- for Rete Ferroviaria Italiana SpA (Ferrovie dello Stato Group), in Italy, work began on the contract for the detailed engineering, project management and construction of a 39 km section of **high-speed railway line** and of an additional 12 km of interconnections with the existing conventional railway, along the Treviglio-Brescia section across the Milan, Bergamo and Brescia provinces, as well as all associated works, such as power lines, works to reduce road interference, road crossings and environmental mitigation. The railway line was inaugurated on at the end of 2016 and then opened to commercial transport;
- for Versalis, activities continue 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 encompasses the completion of an interconnecting T9 cut-off facility;

- for Eni Refining & Marketing, as part of the **Tempa Rossa** project, the activities are underway 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.

In Mexico:

- for Transcanada (Transportadora de Gas Natural de Norte - Noroeste), engineering, procurement and construction activities are currently being completed, and additional work is under way, as part of the **El Encino** project, for the construction of a gas pipeline that will connect El Encino (Chihuahua) to Topolobampo (Sinaloa);
- for Fermaca Pipeline El Encino, work is nearly completed on the **EPC Fermaca Compressor Station** project that encompasses engineering, procurement, construction and support with commissioning of a new Compressor Station in El Encino;
- for Pemex, activities are underway under the **Tula Planta de Alquilacion** contract, which include engineering, procurement, commissioning and launch of a unit at the 'Miguel Hidalgo' refinery. Work will continue until the end of 2018 when work will stop to allow for revamping;
- for Pemex, the activities under the **Revamping Works Madero** contract are underway, involving the maintenance and revamping of five units of the 'Francesco I' refinery in Minatitlan;
- for Pemex, activities are underway under the **Minatitlan Refinery Plant** contract, which include engineering, procurement, commissioning and launch of a unit at the 'General Lazaro Cardenas' refinery in Minatitlan.

In Azerbaijan and Georgia, for the Shah Deniz consortium, work in Georgia is almost completed while activities in Azerbaijan related to the **SPCX Pipeline** contract are underway, encompassing the construction of a pipeline which connects the two countries and above ground installations.

## Floaters

As mentioned previously, the recent reorganisation has led to the placement of the Floaters business line, formerly included in the Offshore Engineering & Construction division, in the Onshore Engineering & Construction division.

The FPSO sector showed positive signs that resulted in a total of seven awards, after the minimum reached in 2016: Ca Rong Do (Repsol), MTC Ledang (Ophir Energy) and MDA-MBH (Husky-CNOOC) in Asia-Pacific;

Liza (ExxonMobil) and Sepia (Petrobras) in Latin America; Yombo (Perenco) in Western Africa, and Lancaster (Hurricane) in the North Sea. An additional project, Dussafu (Gabon), is at an advanced commercial phase and could be awarded during 2018.

In 2017, the FLNG market saw the only designation of the Coral (Eni) project in Mozambique, which represents the first construction of a floating liquefaction unit in the African continent and the third in the world. The Fortuna FLNG (Ophir Energy) project in Equatorial Guinea was postponed until the beginning of 2018 due to problems related to obtaining the necessary financing, while feasibility studies are still ongoing for the Kumul FLNG (Kumul Petroleum) project in Papua New Guinea. It is estimated that in the next few years only a limited number of projects will be approved considering the difficulties in concluding sales agreements due to the low price of LNG expected in the medium term.

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.

The most significant acquisition for Saipem during the first six months of 2017 is related to the extension for another three years plus an optional year, of the use of the FPSO Gimboa in Angola for Sonangol P&P, including management and maintenance services, personnel and consumables.

The largest/most important projects underway or completed during 2017 were:

- in Angola, for Total, construction of topside modules was completed for the two FPSO for the EPCI **Kaombo** project and the conversion of the hulls and integration of the topsides is ongoing. 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 + an additional 8 optional years. The first unit is being completed and commissioned;
- in Indonesia works were completed for Eni Muara on the **Jangrik** EPCI project. The facility began production in May. The scope of work included engineering, procurement, fabrication of the FPU (Floating Production Unit) and the installation of a mooring system, as well as hook-up, commissioning and assistance to the start-up.

In the Leased FPSO segment, the following vessels were active during the year:

- 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 for Sonangol P&P under a contract, extended for a further 3 years in the first half of 2017, for the provision and operation of an FPSO unit for the development of the Gimboa field, located in Block 4/05 offshore Angola, at a water depth of 700 metres.

# OFFSHORE DRILLING

## General overview

At December 2017, 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). All units are the property of Saipem. During the year, the decision was made to sell the deep-water semi-submersible rig Scarabeo 6 and the standard jack-up Perro Negro 3; both were sold to third parties for dismantling in the last quarter of the year.

Saipem's offshore drilling fleet operated offshore in Norway, in Egypt (both in the Mediterranean and the Red Sea), in the Middle East, in West Africa and in Indonesia.

## Market conditions

The downturn in the market that commenced in 2014 continued in 2017. The price of oil fluctuated and was characterised by a general weakness in prices which had a negative impact on the entire segment and, in particular, on the medium-term prospects; as a result, the forecasts for recovery have been moved to after 2018, with the only possible exception being the 'difficult areas' segment due to environmental characteristics for which a slight recovery is expected before then. The difficult moment for the market was mainly reflected in investments made by Oil & Gas Companies in drilling services: the negative trend continued, which led to a decline of just over 20% annually, reaching an absolute low point since the beginning of the crisis in 2014. Even trends in usage continued to reflect general weakness; only the more technologically modern units managed to report fleet occupancy rates of around 70%, while the less modern standard jack-ups were between 60% and 65% of use. Although at a lower rate than in 2015 and 2016, the Oil & Gas sector's downturn has also pushed several companies to opt for dismantling the oldest assets and those with the lowest probability of being used. Overall approximately 140 facilities have been

withdrawn from the market since the beginning of the crisis, leading to a more than 15% drop in drilling rigs. The withdraw particularly affected floaters which reported a drop in supply of about 30%.

Even the trends in the rates for contracts assigned in the period has continued to be conditioned by a general market weakness. Ultra deep water has once again been established on average at \$200 thousand per day and the high spec jack-ups have recorded values below \$100 thousand per day in the Middle East, the benchmark for this type of facility. During this year there have been cases of contractors who, in order to keep the rigs running, have accepted payments that are so greatly reduced that they only cover operating costs.

On account of the significant number of orders awarded in previous years characterised by a positive market phase, new offshore drilling rig construction levels remained healthy, with 137 new rigs under construction (96 jack-ups, 14 semi-submersibles and 27 drillships), 122 do not yet have a contract. While awaiting better market conditions, 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 2018 and beyond).

The significant number of units that will be delivered in the medium term, and the already mentioned reduction of rigs on the active market represent structural changes in the Offshore Drilling segment that will have significant effects in the medium to long term.

## New contracts

The most significant contracts awarded to the Group during 2017 were:

- for Eni, a drilling contract in Mozambique, for 15 months starting in 2019 using the Saipem 12000 drillship;
- for Eni, a contract to drill two offshore wells, off the coast of Cyprus, starting in the fourth quarter of 2017 using the Saipem 12000 drillship;
- a contract to dig a well with the option to dig a second, in the Black Sea using the semi-submersible drilling rig Scarabeo 9. The project calls for modifications to the rig to make it possible to cross the Bosphorus;
- for A/S Norske Shell a contract for drilling a well, plus another optional well in the offshore area of Norway using the semi-submersible Scarabeo 8 platform;

- for NDC (National Drilling Co) a contract for drilling in the Persian Gulf with the use of the jack-up Perro Negro 8.

## Capital expenditure

Investments during the year concerned class reinstatement and work to ensure the compliance of vessels with international regulations and client requirements. The rigs subject to maintenance work were specifically, the semi-submersible drilling rig Scarabeo 9, the jack-up Perro Negro 4 and the tender barge Saipem TAD. The semi-submersible platform Scarabeo 9, in addition to undergoing class reinstatement works, was modified and prepared for passage of the Bosphorus for the contract in the Black Sea mentioned above.

## Work performed

In 2017, Saipem's offshore units drilled 59 wells (of which 35 workovers), totalling 57,788 metres.

The fleet was used in the following way:

- ultra deep-water vessels: the drillship **Saipem 12000** completed its stand-by period in Namibia during the summer following the decision in October 2015 by Total, the previous client, to discontinue works then being carried out in Angola. It was then moved to the site in Las Palmas, Canary Islands, to prepare for the previously mentioned contracts acquired during the year for Eni. The rig started operations in Cyprus near the end of the year; the drillship **Saipem 10000**, as part of a multi-year contract with Eni, continued operations in Egypt. The semi-submersible **Scarabeo 9**, after operations for class reinstatement in March in Las Palmas, Canary Islands, relocated to Costanza, Romania, where it has completed preparation for operations in the Black Sea under the contract acquired during the year. Operations began in

December; in November the semi-submersible **Scarabeo 8** completed operations in the Norwegian sector of the Barents Sea for Eni Norge. The rig was then stacked awaiting preparation of work that will be carried out in 2018 and acquired during the year; the semi-submersible **Scarabeo 7**, operational in Indonesia under the multi-year contract with Eni Muara Bakau, was placed in paid standby following the client's decision to suspend operating activities due to adverse market conditions. The semi-submersible **Scarabeo 5** completed operations in Norway in July as part of a contract with Statoil; the rig was then stacked;

- high specifications jack-up: the **Perro Negro 8** continued operations in the Arab Emirates for the National Drilling Co (NDC) until March. Following the client's decision to terminate the contract in advance due to adverse market conditions, the rig was moved to the Saipem base Sharja in the United Arab Emirates. In December, for the National Drilling Co and Abu Dhabi Marine Operating Co (Adma Opco), the plant's operations were resumed under the contract acquired near the end of the year. The **Perro Negro 7** has continued to operate for Saudi Aramco in the offshore area of Saudi Arabia;
- standard jack-ups: the **Perro Negro 2** 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 and completed class maintenance work;
- other activities: tender assisted drilling barge, the Saipem **TAD** remained in paid standby in Namibia following the decision made the previous year by Eni Congo SA to suspend operating activities due to adverse market conditions. The rig returned to the Congo based on a decision made by the client to be used as an accommodation barge.

## Utilisation of vessels

Vessel utilisation in 2017 was as follows:

Vessel	(No. of days)	December 31, 2017	
		under contract	idle
Semi-submersible platform Scarabeo 5		194	171 <sup>(1) (2)</sup>
Semi-submersible platform Scarabeo 6		-	327 <sup>(2) (4)</sup>
Semi-submersible platform Scarabeo 7		365	-
Semi-submersible platform Scarabeo 8		324	41 <sup>(2)</sup>
Semi-submersible platform Scarabeo 9		275	90 <sup>(3)</sup>
Drillship Saipem 10000		365	-
Drillship Saipem 12000		336	29 <sup>(2)</sup>
Jack-up Perro Negro 2		12	353 <sup>(2)</sup>
Jack-up Perro Negro 3		-	364 <sup>(2) (5)</sup>
Jack-up Perro Negro 4		217	148 <sup>(3)</sup>
Jack-up Perro Negro 5		365	-
Jack-up Perro Negro 7		365	-
Jack-up Perro Negro 8		109	256 <sup>(2)</sup>
Tender Assisted Drilling Barge		338	27 <sup>(3)</sup>

(1) The vessel underwent maintenance works to address technical problems.

(2) The vessel was not under contract.

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

(4) Vessel was sold for scrapping on November 24, 2017.

(5) Vessel was sold for scrapping on December 30, 2017.

# ONSHORE DRILLING

## General overview

At December 2017, 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 of operations were Latin America (Peru, Bolivia, Colombia, Ecuador, Argentina, Chile and Venezuela), the Middle East (Saudi Arabia and Kuwait), Kazakhstan, Italy and Africa (Congo and Morocco).

## Market conditions

During 2017, the total volume of investments made by Oil Companies began to recover compared with 2016, a year marked by a significant drop in exploration and production spending compared to previous years. The positive trend was supported by the recovery in oil prices. Renewed production cuts by OPEC and non-OPEC countries and the strengthening of global demand contributed to the rebalancing of hydrocarbon supply and demand in 2017. However, despite the recent recovery in the price of the barrel, market inertia does not allow for a significant improvement in demand in 2018, especially in the first half.

Thanks to specific characteristics of the region, North America is the area that recorded almost all the investment recovery, concentrated in the 'shale' segment. The forecast for the use of these rigs is over 1,000 units for 2017, however, this number still far from the more than 2,000 active units reached in 2014 before the start of the crisis. In Latin America, an area, which in terms of investments in exploration and production is characterised by being very sensitive to the price of oil, there was a recovery in commercial activity. Also in the other regions where Saipem operates the levels of expenditure recorded in the year were in line with the previous year or in a slight recovery like Europe, driven mainly by the recovery of activity in Romania. In particular, the Middle East continued to show, despite the pressure on rental rates, a substantial stability in the level of activity thanks to Saudi Arabia (which is confirmed as the reference market in the region) and to countries that have launched significant growth programmes such as Kuwait.

## Capital expenditure

The main investments made during the year related to work to ready rigs for operations in Kuwait, Kazakhstan and Romania 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.

## New contracts

The most significant acquisitions during the year concern contracts stipulated with various clients in Kazakhstan, Romania, Argentina and Bolivia.

## Work performed

In 2017, Saipem's offshore units drilled 158 wells (of which 9 workovers), totalling 630,972 metres.

In Latin America, Saipem operated in a variety of countries: in **Peru** work was carried out for various clients, (including Pluspetrol, CNPC, Frontera Energy, Sapet and GMP) and Saipem was present in the country with fifteen rigs (thirteen of its own and two provided by the client) and four units installed on offshore platforms. During the first part of the year the fleet in the country was reduced due to the sale of one rig due to the lack of prospects for use in the short term. In **Bolivia** a total of four assets were used for YPFB Andina, Pluspetrol and Repsol. The preparation of an additional rig began with a view to activities which will be launched during the first half of 2018 for Shell. In **Chile** the last rig in the country was transferred to Peru, closing all drilling in the country. In **Argentina** two rigs were deployed, one of which began operations for Total. In **Colombia** Saipem was present with 2 rigs, one of which operated for Parex. In **Ecuador** four units were deployed and Saipem operated for the client Tecpetrol. In **Venezuela** the 19 rigs in the country remained inactive. In **Romania** the preparation of a rig coming from Kazakhstan started and drilling will begin with the client OMV-Petrom in the first quarter of 2018. In **Saudi Arabia**, Saipem deployed twenty-eight rigs which carried out operations for the client, Saudi Aramco under previously acquired multi-year contracts. In January and August in **Kuwait** two Saipem units provided to the client KOC

began operations, under previously existing contracts. In **Kazakhstan** Saipem was present with two rigs from a partner and three of its own. During the period and within the scope of two contracts with the client Zhaikmunay for two rigs, drilling began for one rig and preparations began on the other rig for work that will begin in the first half of 2018. 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 second half of 2018 by the

client. The period is, however, remunerated at the stand-by rate.

## Utilisation of rigs

Average utilisation of rigs in the third quarter of 2017 was 58% (64.1% in the same quarter of 2016). As of December 31, 2017, company-owned rigs amounted to 84, located as follows: 28 in Saudi Arabia, 19 in Venezuela, 17 in Peru, 4 in Bolivia, 4 in Ecuador, 3 in Kazakhstan, 2 in Kuwait, 2 in Colombia, 2 in Argentina, 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

## Operating results

The Saipem Group's 2017 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 2016	Year 2017
<b>Net sales from operations</b>	<b>9,976</b>	<b>8,999</b>
Other revenues and income	9	21
Purchases, services and other costs	(7,294)	(6,540)
Payroll and related costs	(1,782)	(1,618)
<b>Gross operating profit (EBITDA)</b>	<b>909</b>	<b>862</b>
Depreciation, amortisation and impairment	(2,408)	(736)
<b>Operating result (EBIT)</b>	<b>(1,499)</b>	<b>126</b>
Net finance expense	(154)	(223)
Net income (expense) from investments	18	(9)
<b>Result before income taxes</b>	<b>(1,635)</b>	<b>(106)</b>
Income taxes	(445)	(201)
<b>Result before non-controlling interests</b>	<b>(2,080)</b>	<b>(307)</b>
Net result attributable to non-controlling interests	(7)	(21)
<b>Net profit (loss) for the year</b>	<b>(2,087)</b>	<b>(328)</b>

**Net sales from operations** amounted to €8,999 million, a decrease of 9.8% compared to 2016, due to a decrease of activities in the Offshore E&C, Floaters and Offshore Drilling sectors, as described below in the analysis for each sector.

The **gross operating profit (EBITDA)** amounted to €862 million, a decrease of 5.2% compared to €909 million in 2016.

The **operating result (EBIT)** amounted to €126 million compared to the negative result of €1,499 million reported last year.

Net finance expenses amounted to €223 million, up €69 million compared to 2016, mainly due to higher exchange rate differences mostly due to the effect of the devaluation of the US dollar on residual

exposures and related currencies and in joint venture companies.

The balance of income/expenses on investments was negative for €9 million compared to the positive balance of 2016, due to the lower contribution of companies accounted for using the equity method.

The **result before income taxes** amounted to a loss of €106 million.

Income taxes including €79 million in tax dispute costs amounted to €201 million, down compared to 2016 which included write-downs of deferred tax assets and income taxes of €232 million.

The **loss** for the 2017 financial year amounts to €328 million, a decrease compared to the loss of €2,087 million in 2016.

(€ million)	Year 2016	Year 2017
<b>Operating result (EBIT)</b>	<b>(1,499)</b>	<b>126</b>
Impairment/write-down and reorganisation expenses	2,081	314
<b>Adjusted operating result (EBIT)</b>	<b>582</b>	<b>440</b>

(€ million)	Year 2016	Year 2017
<b>Net profit (loss) for the year</b>	<b>(2,087)</b>	<b>(328)</b>
Impairment/write-down and reorganisation expenses	2,313	374
<b>Adjusted net profit (loss) for the year</b>	<b>226</b>	<b>46</b>

The loss for the year amounted to €328 million (€2,087 million in 2016), compared with the adjusted net income reduced by the following special items:

- write-downs of assets of €138 million: in Offshore Drilling, a semi-submersible platform with its inventory, has been completely written down as it is not expected to be used in the medium term. In Onshore Drilling, some drilling rigs, related equipment

and inventory have been completely written down, as the possibility of use in the medium term is either null or limited;

- write-downs arising from the impairment test of €114 million, regarding several vessels;
- impact of tax dispute settlements of €79 million, as per press release dated May 26, 2017;
- net restructuring charges of €43 million.

### EBIT adjusted - EBIT 2016 reconciliation

(€ million)	Offshore E&C	Onshore E&C	Floaters	Offshore Drilling	Onshore Drilling	Total
<b>Adjusted EBIT</b>	<b>520</b>	<b>7</b>	<b>(143)</b>	<b>234</b>	<b>(36)</b>	<b>582</b>
Impairment/asset write-down of assets	269	58	72	1,170	155	1,724
Write-down of inventories <sup>(1)</sup>	13	1	7	13	34	68
Write-down of tax asset <sup>(1)</sup>	17	77	-	-	-	94
Write-down of receivables <sup>(1)</sup>	-	-	-	17	154	171
Restructuring charges <sup>(1)</sup>	9	11	-	2	2	24
Total impairment	(308)	(147)	(79)	(1,202)	(345)	(2,081)
<b>EBIT</b>	<b>212</b>	<b>(140)</b>	<b>(222)</b>	<b>(968)</b>	<b>(381)</b>	<b>(1,499)</b>

(1) Total €357 million: adjusted EBITDA adjusted reconciliation equal to €1,266 million compared to EBITDA equal to €909 million.

### EBIT adjusted - EBIT 2017 reconciliation

(€ million)	Offshore E&C	Onshore E&C	Floaters	Offshore Drilling	Onshore Drilling	Total
<b>Adjusted EBIT</b>	<b>359</b>	<b>(61)</b>	<b>(33)</b>	<b>199</b>	<b>(24)</b>	<b>440</b>
Impairment/asset write-down of assets	-	-	24	122	66	212
Write-down of inventories <sup>(1)</sup>	-	-	-	12	28	40
Restructuring charges <sup>(1)</sup>	25	16	12	2	7	62
Total impairment	(25)	(16)	(36)	(136)	(101)	(314)
<b>EBIT</b>	<b>334</b>	<b>(77)</b>	<b>(69)</b>	<b>63</b>	<b>(125)</b>	<b>126</b>

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

## Saipem Group - Adjusted income statement

(€ million)	Year 2016	Year 2017
<b>Net sales from operations</b>	<b>9,976</b>	<b>8,999</b>
Other income and revenues	9	21
Purchases, services and other costs	(6,961)	(6,500)
Payroll and related costs	(1,758)	(1,556)
<b>Adjusted gross operating profit (EBITDA)</b>	<b>1,266</b>	<b>964</b>
Depreciation and amortisation	(684)	(524)
<b>Adjusted operating result (EBIT)</b>	<b>582</b>	<b>440</b>
Net finance expense	(154)	(223)
Net income (expense) from investments	18	(9)
<b>Adjusted result before income taxes</b>	<b>446</b>	<b>208</b>
Income taxes	(213)	(141)
<b>Adjusted result before non-controlling interests</b>	<b>233</b>	<b>67</b>
Net result attributable to non-controlling interests	(7)	(21)
<b>Adjusted net profit (loss) for the year</b>	<b>226</b>	<b>46</b>

### Adjusted operating result and costs by function

(€ million)	Year 2016	Year 2017
<b>Net sales from operations</b>	<b>9,976</b>	<b>8,999</b>
Production costs	(8,741)	(7,989)
Idle costs	(316)	(221)
Selling expenses	(104)	(130)
Research and development costs	(19)	(31)
Other operating income	(24)	(18)
General expenses	(190)	(170)
<b>Adjusted operating result (EBIT)</b>	<b>582</b>	<b>440</b>

In 2017, the Saipem Group reported **net sales from operations** equal to €8,999 million, a decrease of €977 million compared to 2016 due to the reduction of operations in the Offshore Engineering & Construction, Floaters and Drilling sectors.

Production costs (which include direct costs of sales and depreciation of vessels and equipment) amounted to €7,989 million, representing an decrease consistent with volumes of €752 million compared with 2016. Idle costs decreased by €95 million; the decrease is due to increased use of vessels/rigs by the Offshore Engineering & Construction division and the depreciation and amortisation following the write-downs carried out at December 31, 2016 in Onshore Drilling. Selling expenses of €130 million show an increase of €26 million.

Research costs, including administrative costs, amounted to €31 million, an increase of €12 million compared to 2016.

General expenses of €170 million show a decrease of €20 million due to the cost reduction programme.

As mentioned, in 2017, Saipem changed its organisational structure, splitting into five divisions. The business line Floaters, previously part of the Offshore Engineering & Construction division is now part of the Onshore Engineering & Construction division and its results are temporarily stated separately for ease of understanding and transition to the new model. The financial and economic results of the Onshore Engineering & Construction division temporarily include the results of the XSIGHT division which is still in the start-up phase and not significant from a numerical perspective. The results of the previous years represented in the following table have been restated to illustrate the effects of the previously mentioned reorganisation.

Offshore E&C Year 2016			Onshore E&C Year 2016	
restated		(€ million)	restated	
5,686	4,652	Net sales from operations	2,844	2,855
(5,057)	(3,935)	Cost of sales	(2,803)	(2,812)
629	717	Adjusted gross operating profit (EBITDA)	41	43
(250)	(197)	Depreciation, amortisation and impairment	(36)	(36)
379	520	Adjusted operating result (EBIT)	5	7
(387)	(308)	Impairment/write-down and reorganisation expenses	(147)	(147)
(8)	212	Operating result (EBIT)	(142)	(140)

The analysis of performance by business unit is based on the adjusted results for corresponding years.

## Offshore Engineering & Construction

(€ million)	Year 2016 restated	Year 2017
Net sales from operations	4,652	3,692
Cost of sales	(3,935)	(3,137)
Adjusted gross operating profit (EBITDA)	717	555
Depreciation and amortisation	(197)	(196)
Adjusted operating result (EBIT)	520	359
Impairment/write-down and reorganisation expenses	(308)	(25)
Operating result (EBIT)	212	334

Revenues for 2017 amounted to €3,692 million, down 20.6% compared to the same period in 2016. This was mainly attributable to lower volumes recorded in Kazakhstan and Southern Central America, which were mostly offset by higher volumes registered in North Africa.

The cost of sales of €3,137 million decreased by €798 million compared to 2016, in line with the lower volumes.

The adjusted gross operating profit (EBITDA) for 2017 amounted to €555 million, equal to

15.0% of revenues, compared to €717 million, equal to 15.4% of revenues in 2016.

The substantial stability of the margins, despite the high fall in revenues, is due to excellent operating efficiency, as well as gains for €15 million for the sale of the business Travaux Maritime, sold to third parties. Depreciation is in line with the total for the same period of 2016.

The operating result (EBIT) for 2017 amounts to €334 million and includes the restructuring charges for €25 million.

## Onshore Engineering & Construction

(€ million)	Year 2016 restated	Year 2017
Net sales from operations	2,855	3,530
Cost of sales	(2,812)	(3,561)
Adjusted gross operating profit (EBITDA)	43	(31)
Depreciation and amortisation	(36)	(30)
Adjusted operating result (EBIT)	7	(61)
Impairment/write-down and reorganisation expenses	(147)	(16)
Operating result (EBIT)	(140)	(77)

Revenues amounted to €3,530 million, representing a 23.6% increase compared to 2016, due mainly to higher volumes recorded in the Middle and Far East and Kazakhstan, partially offset by lower volumes in the Americas. The cost of sales of €3,561 million also increased compared to 2016, in line with the higher volumes net of the effect of LPG arbitration in Algeria.

The adjusted gross operating profit (EBITDA) for 2017 is negative for €31 million, equal to -0.9% of revenues, compared to the positive result of €43 million of the corresponding

period of 2016, equal to 1.5% of revenues and is penalised in the fourth quarter of 2017 from negative effects mainly linked to the previously mentioned unfavourable sentence of LPG arbitration in Algeria.

Depreciation and amortisation of €30 million, a decrease compared to the figure for 2016, due to the write-downs carried out as of December 31, 2016.

The operating result (EBIT) for 2017 is negative for €77 million and includes the restructuring charges for €16 million.

## Floaters

(€ million)	Year 2016 restated	Year 2017
Net sales from operations	1,023	674
Cost of sales	(1,113)	(664)
Adjusted gross operating profit (EBITDA)	(90)	10
Depreciation and amortisation	(53)	(43)
Adjusted operating result (EBIT)	(143)	(33)
Impairment/write-down and reorganisation expenses	(79)	(36)
Operating result (EBIT)	(222)	(69)

Revenues for 2017 amounted to €674 million, representing a 34.1% decrease compared to the same period of 2016, due mainly to lower volumes recorded in West Africa.

The cost of sales, amounting to €664 million, decreased compared to 2016, in a percentage higher than the volumes for the efficiency recovery on the projects being completed and for lower costs on a project in West Africa.

The adjusted gross operating profit (EBITDA) for 2017 amounted to €10 million, compared to the result that was negative for €90 million in 2016. The improvement is mainly due to a

project in West Africa which in 2016 experienced an increase in construction costs resulting from a particularly impactful acceleration programme.

Depreciation and amortisation of €43 million decreased compared to the figure for 2016 due to the end of the useful life of an FPSO vessel.

The operating result (EBIT) for 2017 registered a loss of €69 million, reduced by write-downs following impairment tests for €24 million of an FPSO and restructuring charges for €12 million.

## Offshore Drilling

(€ million)	Year 2016	Year 2017
Net sales from operations	903	613
Cost of sales	(449)	(292)
Adjusted gross operating profit (EBITDA)	454	321
Depreciation and amortisation	(220)	(122)
Adjusted operating result (EBIT)	234	199
Impairment/write-down and reorganisation expenses	(1,202)	(136)
Operating result (EBIT)	(968)	63

Revenues for 2017 amounted to €613 million, down 32.1% compared to the same period in 2016, due to the lower revenues of the semi-submersible platform Scarabeo 9, affected by class reinstatement works, of the semi-submersible platform Scarabeo 7, due to the temporary application of the stand by contract rate, as well as no activity for the entire year from the drilling jack-ups Perro Negro 2 and Perro Negro 3, and limited only to the second half of the year, to the semi-submersible drilling rig Scarabeo 5. The cost of sales, which amounted to €292 million, was down €157 million, in line with the decrease in volumes compared to 2016. The adjusted gross operating profit (EBITDA) for 2017 amounted to €321 million, equal to

52.4% of revenues, compared to €454 million, equal to 50.3% of revenues in 2016.

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 €98 million compared to 2016 as a result of write-downs at December 31, 2016.

The operating result (EBIT) in 2017 amounted to €63 million, which includes the impairment of a semi-submersible platform and its inventory for €44 million due to changes in prospects for use, to the write-downs of other vessels in the fleet following impairments tests for €90 million and restructuring charges for €2 million.

## Onshore Drilling

(€ million)	Year 2016	Year 2017
Net sales from operations	543	490
Cost of sales	(401)	(381)
Adjusted gross operating profit (EBITDA)	142	109
Depreciation and amortisation	(178)	(133)
Adjusted operating result (EBIT)	(36)	(24)
Impairment/write-down and reorganisation expenses	(345)	(101)
Operating result (EBIT)	(381)	(125)

Revenues for 2017 amounted to €490 million, a 9.8% decrease compared to 2016, attributable mainly to further reductions in activity in South America.

The cost of sales amounted to €381 million, decreasing by €20 million compared to 2016. The adjusted gross operating profit (EBITDA) of 2017 amounted to €109 million, equal to 22.2% of revenues, compared to the €142 million of 2016, equal to 26.2% of revenues due to reduced from rigs in South America, as

well as start-up costs for new projects in Kuwait and Argentina.

Depreciation of €133 million showed a €45 million decrease versus the previous year as a result of write-downs at December 31, 2016. The operating result (EBIT) for 2017 shows a negative €125 million includes the write-down of rigs and related inventory for €94 million due to the changed prospects for use of the same and restructuring charges of €7 million.

## Financial position

### Saipem Group - Reclassified consolidated balance sheet <sup>(1)</sup>

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.

The management considers that the proposed scheme represents helpful information to the investor because it allows identifying the sources of financial resources (own and third party means) and its utilisation within non-current assets and operating capital.

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Net tangible assets	5,192	4,581
Net intangible assets	755	753
	<b>5,947</b>	<b>5,334</b>
- Offshore Engineering & Construction	2,733	2,588
- Onshore Engineering & Construction	456	421
- Floaters	179	127
- Offshore Drilling	1,754	1,555
- Onshore Drilling	825	643
Investments	147	141
<b>Non-current assets</b>	<b>6,094</b>	<b>5,475</b>
<b>Net current assets</b>	<b>447</b>	<b>619</b>
Provisions for employee benefits	(206)	(199)
<b>Assets (liabilities) available for sale</b>	<b>-</b>	<b>-</b>
<b>Net capital employed</b>	<b>6,335</b>	<b>5,895</b>
Shareholders' equity	4,866	4,558
Non-controlling interests	19	41
Net debt	1,450	1,296
<b>Funding</b>	<b>6,335</b>	<b>5,895</b>
<b>Leverage (net borrowings/shareholders' equity including non-controlling interests)</b>	<b>0.30</b>	<b>0.28</b>
Number of shares issued and outstanding	10,109,774,396	1,010,977,439

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 71.

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, 2017 stood at €5,475 million, a decrease of €619 million compared to December 31, 2016. The change derives from technical investments and investments of €287 million, amortisation and depreciation for €736 million, from the negative effect of divestments and scrapping for €14 million, from the negative change in investments accounted for using the equity method of €9 million and the negative net effect mainly deriving from the conversion of the financial statements expressed in foreign currency and other changes for €147 million.

**Net current assets** increased by €172 million, from €447 million at December 31, 2016 to €619 million at December 31, 2017. The **provision for employee benefits** amounted to €199 million, more or less in line

with the figure at December 31, 2016.

As a result of the above, **net capital employed** decreased by €440 million, reaching €5,895 million at December 31, 2017, compared with €6,335 million at December 31, 2016.

**Shareholders' equity**, including minority interests, amounted to €4,599 million at December 31, 2017, compared with €286 million at December 31, 2016. The decrease is due to the negative net result for the period of €307 million, the negative effect deriving from the conversion of the financial statements expressed in foreign currency and other changes for €176 million, from the negative effect deriving from the purchase of treasury shares for €27 million, partially offset by the positive effect of the change in the fair value measurement of derivatives hedging exchange and commodity risk for €224 million.

**Net borrowings** at December 31, 2017, stood at €1,296 million, a decrease compared to €1,450 million at December 31, 2016.

## Analysis of net borrowings

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Financing receivables due after one year	-	-
Debts payable to banks beyond the next period	2,193	941
Bonds and payables to other financial institutions due after one year	1,001	1,988
<b>Net medium/long-term borrowings</b>	<b>3,194</b>	<b>2,929</b>
Accounts c/o bank, post and Group finance companies	(1,890)	(1,749)
Available-for-sale securities	(55)	(69)
Cash and cash on hand	(2)	(2)
Financing receivables due within one year	(3)	(2)
Payables to banks due within one year	179	147
Bonds and payables to other financial institutions due within one year	27	42
<b>Net short-term debt (liquid funds)</b>	<b>(1,744)</b>	<b>(1,633)</b>
<b>Net borrowings (liquid funds)</b>	<b>1,450</b>	<b>1,296</b>

The fair value of derivative assets (liabilities) is detailed in note 29 'Derivative financial instruments'.

For the allocation of gross borrowings of €3,118 million by currency, please refer to note 19 'Short-term financial liabilities' and

note 24 'Long-term financial liabilities and short-term proportion of long-term liabilities'.

## Statement of comprehensive income

(€ million)	2016	2017
<b>Net profit (loss) for the year</b>	<b>(2,080)</b>	<b>(307)</b>
<b>Other items of comprehensive income</b>		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
- remeasurements of defined benefit plans for employees	1	-
- share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans	(1)	-
- income tax relating to items that will not be reclassified	(1)	(1)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
- change in the fair value of cash flow hedges	125	297
- changes in the fair value of investments held as fixed assets	1	-
- changes in fair value of financial instruments available for sale	-	(1)
- exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(37)	(176)
- income tax on items that may be reclassified subsequently to profit or loss	(37)	(73)
<b>Other items of comprehensive income</b>	<b>51</b>	<b>46</b>
<b>Total comprehensive income (loss) for the year</b>	<b>(2,029)</b>	<b>(261)</b>
Attributable to:		
- Saipem Group	(2,039)	(279)
- non-controlling interests	10	18

## Shareholders' equity including non-controlling interests

(€ million)	
<b>Shareholders' equity including non-controlling interest at December 31, 2016</b>	<b>4,885</b>
Total comprehensive income	(307)
Dividend distribution	-
Purchase (sale) of treasury shares net of fair value in the incentive plans	(17)
Share capital increase net of expenses	(2)
Other changes	40
<b>Total changes</b>	<b>(286)</b>
<b>Shareholders' equity including non-controlling interest at December 31, 2017</b>	<b>4,599</b>
Attributable to:	
- Saipem Group	4,558
- non-controlling interests	41

## Reconciliation of statutory net profit and shareholders' equity to consolidated net profit and shareholders' equity of Saipem SpA

(€ million)	Shareholders' equity		Net profit (loss) for the year	
	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017
<b>As reported in Saipem SpA's financial statements</b>	<b>3,948</b>	<b>3,534</b>	<b>(808)</b>	<b>(496)</b>
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	723	589	(993)	219
Consolidation adjustments, net of effects of taxation:				
- difference between purchase cost and underlying book value of shareholders' equity	797	794	(4)	(3)
- elimination of unrealised intercompany profits (losses)	(310)	(282)	37	32
- other adjustments	(273)	(36)	(312)	(59)
<b>Total shareholders' equity</b>	<b>4,885</b>	<b>4,599</b>	<b>(2,080)</b>	<b>(307)</b>
Non-controlling interests	(19)	(41)	(7)	(21)
<b>As reported in the consolidated financial statements</b>	<b>4,866</b>	<b>4,558</b>	<b>(2,087)</b>	<b>(328)</b>

## Reclassified cash flow statement <sup>(1)</sup>

Saipem's reclassified cash flow 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 flow statement) occurring between the beginning and the end of the year. The indicator that enables making this connection is the 'free cash flow', or the access or deficit of cash remaining after financing the investments. Starting from free cash flow it is possible to determine either:

(i) on the change in cash for the period, after

the cash flows relating to financial debts/assets have been added/subtracted (opening/repayments of credits/debits), to the capital held (payment of dividends/net purchase of treasury shares/capital inputs), and the effects of the changes of the consolidation perimeter and the exchange rate translation differences on cash and cash equivalents;

(ii) on the change of net borrowings for period, after the flows relating to own capital have been added/subtracted, and the net effect on borrowings of the changes of the consolidation perimeter and the translation differences.

(€ million)	2016	2017
Group net profit (loss) for the year	(2,087)	(328)
Minority interest	7	21
<i>Adjustments to reconcile cash generated from operating profit before changes in working capital:</i>		
Depreciation, amortisation and other non-monetary items	2,208	784
Net (gains) losses on disposal and write-off of assets	5	(2)
Dividends, interests and income taxes	516	282
<b>Net cash generated from operating profit before changes in working capital</b>	<b>649</b>	<b>757</b>
Changes to working capital for the period relating to operations	647	77
Dividends received, income taxes paid, interest paid and received	(318)	(375)
<b>Net cash provided by operating activities</b>	<b>978</b>	<b>459</b>
Capital expenditure	(296)	(262)
Investments and purchase of consolidated subsidiaries and businesses	-	(25)
Disposals	17	17
Other changes relating to investment capital expenditure, investments and disposals	(1)	1
<b>Free cash flow</b>	<b>698</b>	<b>190</b>
Borrowings (repayment) of debt related to financing activities	1	(13)
Changes in short and long-term financial debt	(3,253)	(207)
Sale (buy-back) of treasury shares	(26)	(27)
Cash flow from capital and reserves	3,399	(2)
Effect of changes in consolidation and exchange differences	7	(82)
<b>NET CASH FLOW FOR THE YEAR</b>	<b>826</b>	<b>(141)</b>
<b>Free cash flow</b>	<b>698</b>	<b>190</b>
Sale (buy-back) of treasury shares	(26)	(27)
Cash flow from capital and reserves	3,399	(2)
Exchange differences on net borrowings and other changes	(131)	(7)
<b>CHANGE IN NET BORROWINGS</b>	<b>(3,940)</b>	<b>(154)</b>

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 71.

**Net cash provided by operating activities** positive for €459 million, together with divestment and disposals of non-strategic assets of €17 million, net of the negative cash flow from net capital expenditures in fixed assets and other investment related changes €286 million, generated a positive cash flow of €190 million.

The **cash flow from capital and reserves**, negative for €2 million, is related to capitalisation of financial charges.

The buy-back of treasury shares generated a negative effect of €27 million. Exchange rate differences on net borrowings produced a net negative effect of €7 million.

As a result, **net borrowings** decreased by €154 million.

**Net cash generated from operating profit before changes in working capital** of €757 million related to:

- the net result for the year of -€307 million;
- depreciation, amortisation and impairment of tangible and intangible assets of €736 million, the effect of investments accounted for using the equity method of €9 million, exchange rate differences and other changes of €39 million;
- net gains on the disposal of assets of €2 million;
- net finance expense of €81 million and

income taxes of €201 million. The positive change in working capital related to operations of €77 million was due to financial flows of projects under execution. Dividends received, income taxes paid, interest paid and received 2017 were negative for €375 million and were mainly related to income taxes paid net of tax credits and interest paid. Capital expenditure during the year amounted to €262 million. Division by area of business is

as follows: Offshore Engineering & Construction (€114 million), Offshore Drilling (€78 million), Onshore Drilling (€62 million) and Onshore Engineering & Construction (€8 million). Additional information regarding investments made in 2017, are reported in the comment to the trend of operations. Cash flow generated by disposals, equal to €17 million, were due mainly to the disposal of non-strategic assets.

## 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 (27.5% at December 31, 2016).

### 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 appears in the two years compared.

		Dec. 31, 2016	Dec. 31, 2017
Net profit (loss) for the year	(€ million)	(2,080)	(307)
Exclusion of net finance expenses (net of tax effect)	(€ million)	112	169
Unlevered net profit (loss) for the year	(€ million)	(1,968)	(138)
Capital employed, net:	(€ million)		
- at the beginning of the period		8,909	6,335
- at the end of the period		6,335	5,895
Average capital employed, net	(€ million)	7,622	6,115
<b>ROACE</b>	(%)	<b>(25.82)</b>	<b>(2.26)</b>
<b>Return On Average Operating Capital</b>	(%)	<b>(25.82)</b>	<b>(2.26)</b>

### 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, 2016	Dec. 31, 2017
Leverage	0.30	0.28

# RESEARCH AND DEVELOPMENT

Due to changes of the global scenario of energy sources and the increased exploitation costs, the Oil & Gas industry must innovate to tackle the challenges of the near future.

The success of many of Saipem's projects has been driven by technological development; in order to cope with the current market scenario, a shift in the propensity to change and a new innovation strategy are needed, both in terms of scope and intensity.

Saipem's new innovation strategy is structured in two ways:

- for short-term objectives, guided by Saipem's operational projects, the main drivers are cost optimisation and process efficiency, operational excellence to improve the quality and value proposition of services offered to clients, competitiveness of proprietary assets and the protection of the environment;
- the medium-long term innovation objectives reflect instead the challenges deriving from the evolution of macro-scenarios, mainly in the energy sector. Moreover, since digital technologies are expected to play a disruptive role in the Oil & Gas business, the 'digital' option is widely pursued in both the short and long term.

In this context, Saipem has recently structured its own technological innovation activities in accordance with three main lines:

- technology development applied to instruments and technologies for the execution of commercial projects or high-tech integrated systems;
- transformative innovation to change processes and how Saipem operates, with greater openness to the 'ecosystem', also for drawing a benefit from digitalisation technologies;
- intelligence technology to investigate new technologies inside and outside the Oil & Gas industry, for the purpose of identifying striking emerging technologies offering major opportunities for the Company's business.

With regard to the latter, during the year extensive technological research was pursued in the fields of interest and some innovative technologies have already been identified, both for offshore and onshore activities, and the related agreements with the technology owners have been or are being defined.

Saipem's approach to technology is strongly oriented towards the execution of projects/services and two main types of development are in progress:

- research and development: activities with a greater innovative content and a medium term target;
- technological applications: internal development activities nearing final application and technologically more advanced, developed directly in projects and for proprietary means, also with the involvement of customers.

In order to fully describe Saipem's efforts in innovation, it is therefore essential to consider both types. Relating to the new innovation strategy, in 2017 total investments in this area increased significantly compared to the average amount of the past few years.

For the Offshore Engineering & Construction division, attention has focused on the development of subsea fields, which are becoming increasingly complex and costly. To make the development of such fields economically viable for its clients, Saipem is working on a number of innovative solutions that can change the method by which the existing fields or new subsea infrastructures will be developed, thereby reducing the total cost. This is made possible through the combination of various new technologies under development, which make the debottlenecking of fields already in production, the exploitation of marginal fields and even the development of new fields technically and economically sustainable, even in deeper waters.

The new technologies allow to move operations conducted on the surface down onto the seabed and enable increasing distances between the subsea production wells and the main infrastructures. This is possible by targeting the so-called Subsea Factory, Long Tie-Back solutions and All Electric fields, at the same time reducing subsea installation of underwater pipelines and equipment installed for connecting to the surface.

In this field, Saipem signed a development agreement with Siemens, aiming to qualify and promote an open standard for subsea control systems for the Saipem Subsea Bus architecture based on Siemens Subsea DigiGrid technology. In particular, Siemens will support Saipem in the implementation of the Subsea Bus architecture while at the same time developing its Subsea DigiGrid for the

subsea control system. Concerning the agreement signed in 2016 with Total and Veolia for the co-ownership and exclusive marketing of the SPRINGS™ (Subsea PProcess and INjection Gear for Seawater), Saipem is now carrying out the industrialisation activities for this technology. Completion of the joint development project with some of the leading Oil & Gas companies concerning its Spoolsep technology for the gravimetric separation of the oil from the water produced, is still under development in a test centre operating in France. The acquisition of a study that is currently underway with Petrobras on the separation of Dense Phase CO<sub>2</sub> with Hi-Sep™ proprietary technology.

In the strategic SURF area, Saipem completed the development programme for the 'Heat Traced Pipe-in-Pipe' technology, suitable for the 'J' laying of rigid pipelines, extends the application of the most efficient active heating system to risers and flow lines having greater diameters and to even longer tie-back lines. In addition, Saipem is developing a new and innovative low-cost solution that consists of a subsea station capable of locally heating the fluid circulating in the pipelines, solving the flow assurance problems during production. The first tests of a prototype are nearing completion.

Saipem's first rate skills in materials technology were be further exploited to enhance productivity and reduce the cost of quality: the 'Internal Plasma Welding' technology for carbon steel and clad sealines, successfully used on the Kashagan Pipeline Replacement project has definitively demonstrated how this is possible and very advantageous. New and even faster welding and 'Field Joint Coating' techniques, exotic and composite materials for pipes, valves, spools and ancillaries are under development, to face corrosion, fatigue, high pressure and high temperature applications.

A further step forward is obtained by the use of pipelines coated internally with plastic material, as an alternative to the more expensive pipelines coated with anti-corrosion material; the new 'Fusion Bonded Joint' technique is used to restore the continuity of the internal plastic protective lining during the construction and laying of water injection lines. This technology, now placed on the market, is being further

developed to make it suitable for use on hydrocarbon production lines.

Saipem is also active in the development of solutions which include new disruptive thermoplastic composite products for pipelines, able to meet the stringent combined requirements mentioned above and reduce the total cost of subsea piping equipment.

Excellence in materials technology is key for Saipem's strong positioning in also the long pipeline installation business: new solutions to further optimise installation techniques and reduce costs have been prepared very recently.

Remote subsea operations and intervention technologies are key elements for the success of installation and 'life of field' services. All subsea intervention technologies developed by Saipem, such as the Innovator ROV, the SiRCoS repair system of subsea pipelines, excavation systems in ultra-deep and ultra-shallow waters, as well as other engineered subsea systems, have benefited from the experience gained during the execution of more challenging subsea intervention work. Two Heavy Work Class ROV Innovator 2.0™ currently operate aboard the new 'Normand Maximus' vessel, and will be capable of deploying the ROVs under very harsh marine conditions.

Saipem looks even further to the future of underwater robotics with 'Hydrone': a subsea platform built by the Hydrone-S, an advanced AUV (Autonomous Underwater Vehicle), a hybrid vehicle (ROV/AUV) resident on the sea bottom (Hydrone-R) and a resident redeployable ROV system (Hydrone-W).

The development and industrialisation programme continues with the inspection and testing of the most advanced subsea communication, automatic control, power management, remote handling technologies.

The Offshore Drilling division focused mainly on the adoption of new drilling techniques and, as part of the digitisation of drilling activities, the development, on behalf of a leading operator in the sector, of an innovative application for training drilling supervisors using virtual reality is underway.

The Onshore Engineering & Construction division has focused mainly on the overall improvement of value proposition to clients, through the design of systems with higher

performance and operating availability, at the same time integrating them into the surrounding environment. This is particularly reflected in Saipem's innovative efforts in the monetisation of natural gas, 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.

Activities are ongoing for the definition of a process package for small scale liquefaction and regasification of natural gas.

Small scale Liquefied Natural Gas (LNG) can become a flexible tool for supporting sustainable mobility in the near future. As regards Floating LNG, the qualification was completed of the tandem LNG offloading system using floating flexible hoses in collaboration with Trelleborg, while the affiliated company Moss Maritime recently gained pioneering experience in the market for the conversion of vessels for LNG transportation into floating liquefaction systems (FLNG) and for regasification and storage of LNG (FSRU).

An extended programme aimed at improving and optimising various aspects of engineering and construction modes of onshore pipelines is currently underway. New solutions are also being developed, for example those based on the use of geogrids.

In the medium-long term, and with a view to the gradual decarbonisation of energy, Saipem is pursuing various actions, also investing in new hybrid approaches based on green technologies in association with the development of Oil & Gas operations.

Saipem is creating a portfolio of technologies both for the purification of natural gas in deposits with a high CO<sub>2</sub> content, and for the capture of CO<sub>2</sub> from combustion fumes for electricity generation and industrial processes. Moreover all options for the reuse of CO<sub>2</sub> are currently being investigated as a first step for the full industrial exploitation of these technologies.

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

In the renewable energy at sea sector, Saipem successfully installed the first floating wind farm in the world, the Hywind Scotland project for Statoil, which required innovative solutions for lifting and installing a towering, fully assembled, 6 MW wind turbine on a floating structure anchored to the seabed.

Several new solutions in the floating wind farm sector are currently under development, along with a concept developed by Moss Maritime for a floating offshore solar park for which a patent application has been filed.

With regard to the issue of energy efficiency, a recently developed package of new technologies based on a 'green design' approach is also available to offer solutions to minimise the environmental impact and maximise the energy saving of drilling semi-submersible platforms and drillships.

In conclusion, with the area of environmental protection and specifically regarding 'Oil Spill Response', Saipem has developed a more technologically advanced structure in Trieste for sealing a subsea wellhead. The Offset Installation Equipment system is used to rapidly resolve environmental disasters such as that of the Deepwater Horizon platform in the Gulf of Mexico in 2010.

In the overall framework of technological developments, Saipem filed 30 new patent applications in 2017, resulting in a patent portfolio that includes approximately 2,350 patent titles.

In the field of Transformative Innovation, Saipem has consolidated the initiative regarding its new incubator of ideas and prototyping laboratory, the 'Innovation Factory', aimed at testing solutions that respond to the challenges of the sector in which Saipem operates through new technologies (digital first and foremost) and new ways, not only to increase efficiency and productivity, but also for the discovery and pursuit of new value propositions.

Together with a leading Oil & Gas operator, new approaches based on virtual reality have been launched and increased for the maintenance and management of the owned vessels (in this regard a digital twin of a drilling vessel has been developed), for the development of a smart wearable device platform in order to improve the safety conditions of operators on board the rigs. A new digital and data-centric collaborative methodology was also developed for the management of the entire cycle of the project 'xDIM™'. In addition, Saipem and NTT DATA signed a collaboration agreement for the prototyping and implementation of new solutions for Saipem shipyards and vessels. Saipem and NTT DATA will cooperate on the

application of technologies such as intelligent wearable devices, the Internet of Things, IT security and virtual and augmented reality, with the joint aim of improving efficiency and developing new business opportunities.

Last but not least, we must mention the successful event 'Innovation and Technology

Day', where the company opened the doors of one of its technological hubs in Marghera (Venice) to representatives of the media and financial community to present its most advanced projects and the technologies for the Oil & Gas services sector, and to further underline the creation of corporate value through innovation.

# HEALTH, SAFETY AND ENVIRONMENT

## HSE Management System

During the year, numerous and continuous effort was made for the dissemination, through various software applications developed for HSE and particularly of a software for running HSE audits, which has also now been adopted by 50% of Group companies. The extension to the remaining companies will continue also in 2018, with the aim of having a single process management and control instrument with a view to optimising time and resources both during the auditing phase and when managing results. The activities planned for the optimisation and integration of the various instruments/software in the HSE area continue, their conclusion is scheduled for the end of the first half of 2018.

## Environmental Training

In the last part of 2017, environmental training courses on Italian HSE legislation were organised for HSE and Services Centre personnel and for persons within the company who are responsible for waste management for each local unit (SISTRI Delegates). The topics dealt with are related to recent regulatory developments on the management of excavation soil and rocks and on waste management.

The description of policies, of the approach and yearly performance for issues regarding Health, Safety and Environment can be found in the 'Consolidated Non-Financial Statements'. This document contains information that fulfils the obligations referred to in the first and second paragraphs of Article 2428 of the Civil Code, limited to the analysis of non-financial information.

# HUMAN RESOURCES

## Quality

With the aim of continuous improvement of processes, the following main activities have been identified:

- adaptation of Saipem's Quality System to the new ISO 9001, 2015 and definition of a new multi-site certification scheme;
- overall reorganisation of insurance and quality control for projects carried out during the Construction, Fabrication and Installation phases;
- confirmation of ISO 3834 Certification for the fabrication process through welding for onshore pipelines and obtained certification for the Arbatax fabrication yard;
- improvement of 'Lessons Learned' and 'Customer Satisfaction' processes, and their implementation on all projects;
- measurement of the 'Key Process Indicators' according to what is defined by the 'Process Owners' 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 project levels, of 'Quality System Internal Audits';
- survey of the 'Cost of non Quality' on selected executive projects.

As part of the actions to optimise resources, the monitoring of professional skills was safeguarded through a monitoring and control process aimed, in particular, at measuring the level possessed with regard to the most critical and distinctive skills for the business and performance of said skills by the resources. Therefore, with respect to these drivers, management action plans have been defined which aim at ensuring more effective retention of the resources considered to be of interest and at the same time ensuring more structured growth and professional development programmes.

With particular reference to the monitoring of professional skills, it should be noted that, as part of the actions to optimise resources, the level of coverage of professional roles and the related wealth of skills, expressed also at the aggregate level by macro areas, have been fully safeguarded. With greater reference, moreover, to the main roles with technical and project skills that are considered critical and distinctive in the field of Oil & Gas, roles at all levels of seniority are satisfactorily covered. The trend of greater numbers of female managers is growing, with an increase of 0.5% in 2017, while the local managerial force is slightly down (reduced by 0.3% in 2017).

## Workforce

The decrease in the number of resources in 2017, which went from 36,869 (of which 14,161 were resources with critical skills) in 2016 to 32,058 (of which 13,154 with critical skills) at the end of 2017, further reflects the effects connected to market trends and the continuation of the structural measures implemented under the 'Fit For the Future' programme.

The countries that were most affected by the decrease in resources were: Indonesia, Nigeria, Azerbaijan, Mexico and Brazil.

Within this scenario, particular attention was paid to minimising actions that would optimise key roles with subsequent improvement of the qualitative mix between key and non-key roles. These measures lead to an improvement of the mix, moving from 38.4% of key roles in 2016 to 41.0% in 2017.

With reference to the distribution of resources, optimisation actions have been directed more towards senior age groups in order to guarantee greater opportunities for growth and development of junior resources.

## Payroll

In line with employment trends, the value of the payroll decreased to €1,618 million at the end of 2017 compared with €1,782 million at year end 2016. At the same time there has been an increase in the per capita figure from €45.2 thousand in 2016 to €47.6 thousand in 2017 caused by the change in the mix of resources. This increase was influenced by both the release of personnel working on projects in areas characterised by lower cost, such as Indonesia, Mexico and Azerbaijan and by the introduction in some cases of retention instruments for resources with critical skills.

## Human Resources Management

Also during the current year, and because of the protracted market scenario, monitoring and control actions continued, useful for obtaining savings on HR indicators such as holidays, rest days, overtime, business trips, etc. These activities, following the divisional reorganisation of Saipem, were also carried out through specific actions aimed at individual business sectors, with the aim of

making them more effective by virtue of the different specificities and trends in the various contexts.

As always, the actions were implemented through the involvement of the trade unions, sharing as the common goal the need to make the company more competitive, through greater attention to particularly critical business processes, which can allow for optimisation of the cost structure of the staff.

With a view to increasing attention to issues of work-life balance issues, positive feedback has been made in the face of some important initiatives, including the application of the new working hours at all Italian Saipem SpA companies, characterised by the introduction of the so-called 'summer period', with the possibility of leaving early on Friday. The new formulation of working hours, achieved through a union agreement, has allowed for better work-life balance, introducing a different cultural approach to managing working time, and also allowing for the optimisation of company costs.

2017 allowed the company to make a positive assessment of the launch of the Welfare system called Welfy, a system designed to bring the company closer to the real needs of its people, thereby reinforcing the sense of belonging and loyalty; more than 30% of Italian employees have allocated a share of the Productivity Bonus to the Welfare system and the number of subscribers to the dedicated portal grew exponentially.

The actions to optimise the workforce and turnover of the qualitative and quantitative mix of resources continued also through an additional union agreement concerning the early retirement procedure pursuant to Article 4 of the Fornero Law, which increased the number of planned outings and extended validity until December 31, 2019. Through specific trade union agreements, the personnel of the metalworking sector of the Arbatax yard and of the maritime sector was also involved in the expansion of the plan. The plan fully met the expectations of both the company and the trade unions, having reached 100% of the possible adherents.

## Innovation

To respond to the challenges facing our sector in the coming years, Saipem has once again renewed its commitment to the initiatives of the 'Innovation Factory', an incubator of ideas for developing ground breaking responses to the challenges of this sector.

The topics studied in 2017 include augmented and immersive reality applications

for maintenance, integration of EPC project phase information, the experimentation of digital and automation technologies on sites and fleets and the use of big data for the supply chain and market analyses.

In line with this orientation, HR department management reaffirmed its attention to innovation issues, using it as leverage and a key element for pursuing greater efficacy and efficiency in its own processes and to facilitate the process of digital transformation in the management and development of human resources.

Saipem has designed and is currently globally disseminating cloud tools to support its Talent Acquisition and Talent Management processes.

With a user friendly interface, the new solutions cover the whole employee career path, (selection and induction, performance assessment, skills assessment, talent review, compensation) allowing accurate analyses, guaranteeing greater process integration and the traceability of all phases in a single system. In fact, the latter constitutes a key element for the simplification and accountability of resource managers, in line with the increasing involvement of the same in the activities of management and development of resources, allowing for, at the same time, a greater focus by the HR function on activities with more strategic content and policy processes.

Moreover, thanks to the introduction of a single tool to support the talent acquisition process at the global level, it will be possible and necessary to trace candidate data and the related selection process by optimising the information and making it available in an integrated manner to HR and line managers.

As part of the process and innovation and efficiency improvement of the activities, HR management took advantage of the opportunities offered by the 'Fit For the Future' programme and the divisionalisation process, through the creation and contribution of the Services Centre, an organisational structure created within Corporate with the aim of centralising and optimising the provision of cross over services.

The creation of the Shared Services Centre Saipem, configured to provide products and services, has the objective of guaranteeing an optimal supply of centralised and cross over company services, with considerable competitive advantage in improving related processes, thanks also to the opportunities offered by the use of new integrated IT systems.

In 2017, an internal work team was set up to define the catalogue and services, implementing an effective and efficient control model.

## Compensation

For the purpose of consistency with the current Saipem strategic plan, the 2017 Compensation Policy Guidelines include challenging performance targets that permit guiding, monitoring and evaluation of cost-containment 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.

For all the management staff, new targets have been defined for 2017, consistently with the challenging objectives stated to the market during the presentation of the strategic plan of the 'Fit For the Future 2.0' programme, which aims to define the new Saipem industrial and organisational model with a view to a leaner organisation and greater competitiveness. These objectives have been the priority for 2017 and have therefore been organised according to a top-down process at all levels of the organisation.

The 2017 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 Corporate Governance Code. The policy's aim is to attract and retain high-profile professional and managerial resources, and align management's interests with the priority objective of value creation for the shareholders in the medium-long term.

The '2017 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 16, 2017, with a favourable vote later expressed by the Shareholders' Meeting on April 28, 2017 (for further details, see the Remuneration Report published on the Saipem site).

Following the final reckoning of the Company objectives and assessments of the management's 2016 performances, annual individual financial incentives were paid to a total of 136 senior managers (representing 35% of all senior managers) with a total cost outlay of €4,794,000.

Considering the context of strong change due to the reorganisation of the Company into divisions, full attention has been paid to defining the annual remuneration policies aiming to selectively reward those skills that have a greater influence on business results, maintaining the firm commitment to reducing costs while retaining the distinctive abilities 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. The remuneration policy guidelines were designed in the long term and variable incentives have been adopted on a selective basis, in favour of long-term incentive instruments, thus confirming the structure of the remuneration package envisaged in 2016, which introduced the share-based Long-Term Incentive Plan.

In July, Saipem implemented the second promise made, the allocation of the share-based Long-Term Incentive Plan for the three-year period 2016-2018, introduced in order to strengthen management's participation in business risk, to promote the improvement of company performance and pursue the long-term goals of shareholders, and which entails the free-of-charge

(units)	Average workforce 2016	Average workforce 2017
Offshore Engineering & Construction	19,492	14,041
Onshore Engineering & Construction	11,312	12,665
Offshore Drilling	2,011	1,661
Onshore Drilling	5,328	4,779
Staff positions	1,360	790
<b>Total</b>	<b>39,503</b>	<b>33,936</b>
Italian personnel	6,416	5,932
Other nationalities	33,087	28,004
<b>Total</b>	<b>39,503</b>	<b>33,936</b>
Italian personnel under open-ended contract	6,038	5,693
Italian personnel under fixed-term contract	378	239
<b>Total</b>	<b>6,416</b>	<b>5,932</b>

(units)	Dec. 31, 2016	Dec. 31, 2017
Number of engineers	6,086	5,513
Number of employees	36,859	32,058

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).

Following the reorganisation of the Company into divisions, a process of modification of the metrics and mechanisms underlying the incentive systems was also started, in order to link individual results with those of the division to which they belong and to further encourage the efforts of all towards reaching

the annual targets. The revision of the short-term incentive system has been approved by the Board of Directors and will be suitably completed with the assignment of the objectives for the year 2018.

The description of policies, of the approach and yearly performance for issues regarding personnel management can be found in the 'Consolidated Non-Financial Statements'.

This document contains information that fulfils the obligations referred to in the first and second paragraphs of Article 2428 of the Civil Code, limited to the analysis of non-financial information.

# INFORMATION SYSTEM

In line with the guiding principles of the company's organisational transformation, in 2017 the ICT function began a new organisation, creating: a new Corporate department called Digital, focusing on digital transformation; a centralised Corporate function of the Services Centre, covering the ICT executive activities; finally, for each division, a new ICT management function within the new business structures. This reorganisation places new emphasis on the digital transformation initiatives and offers greater focus on business solutions by division, while ensuring appropriate supervision of the maintenance and development of the corporate IT system.

In strategic terms, the will to pursue operating cost containment objectives is confirmed, continuing the work done in previous years. In this regard, a new transformation project called Adaptive Sourcing was launched in 2017 and is currently being finalised, leading to a profound change in the ICT sourcing structure: Saipem selected three technological and service partners with which it initiated a broad review of the supply of ICT services and thus intends to enable the company's digital transformation path.

Support to the innovation initiatives launched by the Company in 2016 and 2017 was confirmed. A road map for digital transformation was outlined and planned, listing the 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 strengthened 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 general plan that Saipem set up last year to achieve the complete separation from Eni's IT systems has almost been completed. All that remains to be completed is a review of the sound system for vessels.

In the Procurement field, the adoption of the SAP/Ariba Cloud platform has reached an advanced phase of dissemination. Begun in October 2016, the activities for the

introduction of the catalogue-based Procure-to-Pay system was completed, for the purchase of business area spare parts and consumables, and in 2017 the number of transaction on the platform reached satisfactory levels. The e-tender management areas for complex services are being finalised.

In the HR area, a project is in progress for the adoption of Oracle Fusion Human Capital Management (HCM), as a natural cloud-based evolution of the current IT system. Saipem had already adopted the recruitment module of this solution based on Oracle Taleo. The project now intends to complete migration of all Talent Management functions onto the new Oracle platform, while the workforce administration functions remain on the previous Oracle Peoplesoft based system; in a subsequent phase, we will assess how to manage the final migration of the elements remaining on Peoplesoft onto the HCM system. The roll-out of the Falcon application continues satisfactorily. Falcon is the in-house solution dedicated to international payroll and HR processes, whose oversight is under the remit of the foreign associate, Saipem India Projects Private Ltd, in Chennai.

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, in line with the intentions of the Company's new Innovation, Systems and Corporate Marketing department.

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 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.

Numerous areas of intervention were identified relating to both the efficiency, and the increased quality of engineering data that Saipem must provide its clients at the end of the project, during the so-called handover phase of project data and documents.

These solutions have by now been leveraged on a number of contracts, transforming the Saipem Digital Project Data Hub solution into a competitive edge for Saipem.

An important experimentation was finally conducted of Big Data technologies, for managing huge amounts of data, applying it to

support the definition of any project claim management actions. By innovatively cross-referencing information coming from document management with information relating to comments expressed by clients on such documents, new methods were developed for identifying possible disruption cases caused by the client during the document revision of the engineering drafts, cases that traditional analysis methods would not have highlighted.

After a period of net limitation of investment, 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. In cooperation with HR, an in-depth review of the multi-function printer fleet was also carried out, appointing HP to drastically reduce the number of printers, at the same time enabling a print-with-badge solution, which ensures more flexible use and confidentiality for printed materials.

The IT infrastructural part also played a key role in equipping the 'Innovation Factory', the Saipem initiative aimed at identifying

technological sites for change by involving a cross functional team of young people, selected from within the organisation based on their propensity to innovate and collaborate. The Factory was the breeding ground for the experimentation of IT collaboration technologies, with which to promote sharing of smart working experiences and methods, such as Skype for Business and Microsoft Office 365.

Governance, compliance and security processes were all carried out successfully according to schedule during the year.

Thanks to an increasingly extensive use of the CA RCM system for Role Compliance Management, dedicated to standardising the application profiles of the main company software, the activities required by company control methodologies have been carried out for SAP and Oracle Peoplesoft HCM, as well as the main software application environments, so as to complete the automation of the profile-user association process enabling the internal client managers to carry out the control role provided for under corporate regulations. This approach was combined with a cutting-edge use of ICT security technologies and is designed to mitigate the security risks associated with data processing by the Company information systems.

# GOVERNANCE

The '**2017 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 5, 2018, and published on Saipem's website at [www.saipem.com](http://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 - 7<sup>th</sup> Edition (January 2018)' 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](http://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 '**2018 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. It has done this with the aim of obtaining an organic and overall vision of the main risks for the Company that may impact strategic 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 and Shareholding Structure Report 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 level and for the main subsidiaries that are identified on the basis of economic-financial and qualitative parameters. Risk assessment is performed by the Company's management through numerous meetings and workshops coordinated by the Enterprise Risk Management function. In particular, risk assessment is performed by assessing the risks that could impact Saipem's strategic and management objectives, taking into account the new business model and organisational

and procedural changes in the Company.

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 Statements'), a focus group was introduced to affiliate the main themes that emerged as, according to Saipem's senior managers, those that are most risky for the Company with the potential impact they may have.

Saipem is exposed to strategic, operational and external risk factors that may be associated with both the Group'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 on the income, balance sheet and/or financial situation of the Saipem Group. 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'.

## Risks relating to the trend of the oil price and reduced profit margins

The Company operates in the highly competitive Oil & Gas services industry, the trend of which is currently influenced by a low oil price level. This situation continuing in recent years has had significant effects on the investment programmes of the main Saipem clients, causing an impact on the demand for services the Company offers and the associated profit margins.

For this reason, the Oil & Gas services industry has featured increasing competition on prices for lump sum turnkey contracts 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 every Company department 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, 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 from the sums originally estimated for various 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; and (v) a rise in the price of raw materials (i.e. steel, copper, fuel, etc.).

All of these factors and other risks inherent in the sector 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.

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 and has concluded the 'Fit For the Future' programme, whose various initiatives also envisage rationalisation of structural, fabrication yard and vessel costs.

In addition, in the current 'lower for longer' market scenario, the Company is committed to identifying and implementing various new initiatives and solutions to reduce its costs through more efficient processes and technologies.

### **Risks related to the lowering of demand and the deterioration of relations with clients**

The market context is characterised by the ongoing downward trend in the price of oil

which, beginning in July 2014, has been aggravated by lower global growth than expected, with a negative impact on world demand for oil and gas.

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 underway (whether EPCI lump sum or Drilling 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) delays and difficulties in obtaining change orders for the scope of work requested by the client and executed by Saipem; (v) delays and difficulties in renewing leasing contracts for onshore and offshore drilling fleets prior to the expiry thereof and under economically advantageous terms and conditions; (vi) arbitration and international disputes in the most significant cases.

In addition, this context can lead to the risk of concentration of clients and projects in some geographical areas, despite Saipem pursuing commercial opportunities with a broad focus on various clients in the energy sector (International Oil Companies, National Oil Companies) and with a global perspective on reference markets.

In order to mitigate the reduction of its CAPEX investments in the Oil & Gas sector by its clients, Saipem has taken steps to widen the portfolio both at the client and geographic market level and looking for alternative markets such as: (i) maintenance and optimisation of existing plants (MMO) linked to OPEX investments in the Oil & Gas sector; (ii) plants for renewable sources (wind); (iii) construction of pipelines and water grids for civic use and other industries (Mining); (iv) dismantling of oil platforms; (v) construction of high-speed railway lines.

### **Risks associated with fluctuation of floating capital**

The aggravation of the market conditions and 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.

Specifically, with reference to the EPCI projects, the Group's cash flow is strongly conditioned by the structure of the contract negotiated with the client, who may require a significant commitment of financial resources both in the initial stages of the project (i.e. for the issuing of purchase orders to suppliers, the mobilisation of personnel, as well as the mobilisation or technical preparation of the vessels involved) and in the subsequent phases for the achievement of the milestones agreed upon in the contract. Furthermore, in project execution phase, the contractor must negotiate payments in relation to variations in the scope of work requested by the client (variation orders) or for variations for the correct realisation of the work not requested explicitly by the client (claims).

The offshore and onshore drilling market, on the other hand, is characterised by rates for the sale of related services, which include remuneration of the rig used (property of the contractor), personnel and payment of ancillary costs (i.e. subcontractors for accessory services). Therefore, the related cash flows could deteriorate in the case of non-alignment between the payment of sales rates by the clients and payment to of operating costs to third parties.

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 project execution. In spite of the activities in place, the EPCI and Drilling projects could reduce floating capital, exposing the Group to economic and financial impacts, as well as affecting its reputation in the relevant industry.

### **Risks related to relations with strategic partners**

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.

Despite the measures implemented by Saipem (for example, due diligence) to identify suitable partners and to manage activities carried out in partnerships pursuant to the contract terms, when the client suffers damage due to a breach of contract on the part of 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 enterprise.

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, the Group 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.

In order to mitigate these risks, Saipem is committed to maintaining long-term positive relationships and resolving any emerging disputes with its strategic partners for business in the countries in which it operates or is commercially interested in operating.

### **Risks related to the supply chain**

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. 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. Furthermore, Saipem has undertaken numerous operational and organisational initiatives that are included in the 'Fit For the Future' and 'Fit For the Future 2.0' programmes.

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 to read and accept the Model 231 in its entirety, including Saipem's 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 Organization) and to the OECD Guidelines for Multinational Enterprises (more information in the specific detail section of the 'Consolidated Non-Financial Statements').

## Risks related to technological development

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

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

Should the Company be unable to upgrade the technologies, assets, patents and licences required to improve its operational performance, the Group would probably have to modify or reduce its objectives.

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 industry challenges.

An emerging area of interest for the 'Innovation Factory' is linked to technologies aimed at increasing energy efficiency in operations (more information in the specific section 'Research and development').

## Risks related to legal proceedings involving the Company

The Group is currently a party in judicial, civil, tax and administrative legal proceedings. For a summary of the most significant cases, see the note '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 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.

## Risks related to the Group's strategic positioning

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, the creation of joint ventures and alliances. 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 to changes in scenarios that are applicable to the reference industry.

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

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 new divisional business model.

## Risks related to possible fraud or unlawful activities by employees or third parties

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, in carrying out its business activities the Group relies on subcontractors and suppliers 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.

As regards this risk, 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 system of internal controls, its Code of Ethics and a Model pursuant to Italian Legislative Decree No. 231/2001, as well as an organisation management and control model for Group companies 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.

## Risks related to the protection of information and know-how

In carrying out its activities, the Group relies on information, data and know-how of a sensitive nature, processed and contained in documents, including in electronic format, unauthorised access to which and diffusion of which may cause damage to Saipem.

Although Saipem adopts information security protocols and policies, it cannot be excluded that it may have to face threats to the security of its information infrastructure or unlawful attempts to access its information system (cyber-attack) which could lead to the loss of data or damage to intellectual property and assets, as well as the extraction or alteration of information or the interruption of production processes.

Furthermore, interruptions to or breakdowns in the information system could compromise the Group's operational effectiveness, provoking errors in the execution of operations, inefficiencies and procedural delays in the execution of activities.

Additionally, the Company may have to deal with attempts to obtain physical or computer based access to personal, confidential or other sensitive information found within its facilities.

To manage these risks, it should be noted that Saipem makes use of the most advanced IT security technologies, in order to mitigate the exposure to the risk of data security threats in the context of the processing provided for by company IT systems. To this end, the relevant function completed the ICT risk assessment process by conducting a significant number of Business Impact Analyses (more information can be found in the specific 'Information system' section).

## Risks related to dependence on key personnel and specialist personnel

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 2017 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. Furthermore, during expansive phases of the market, the Group could suffer delays in the hiring of personnel due to greater demand for specialised resources, which in turn could determine negative impacts on the results and reputation of the Group.

In addition, the development of future strategies by Saipem will depend to a significant extent of the Company's ability to attract and retain highly qualified and competent personnel. The continued expansion of the Company into areas and activities that require further knowledge and skills will moreover make it necessary to employ management and technical personnel, both international and local, with different competencies.

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. With the aim of preventing and mitigating these risks, the Human Resources Department, in cooperation with the various company functions, uses integrated operational tools to support the management of specialist knowledge, managerial skills and professional development of key and specialised personnel. In particular, the project, called K-Map, allows for a process of mapping and analysis of skills and knowledge gained by the resources in the various operational contexts. This tool enables an assessment to be made of the qualitative and quantitative suitability of Saipem's human capital. Lastly, Saipem defined the guidelines for the Group's remuneration policy in order to attract, motivate and retain highly professional and managerial resources and to align the interests of management with the primary objective of creating value for shareholders in the medium-long term (more information can be found in the specific 'Human resources' section).

### **Risks related to the volatility of the Group's economic and financial results**

In accordance with common practice in the Oil & Gas industry, the Group recognises revenues for multi-year projects in both the Offshore and Onshore Engineering & Construction sector in relation to the progress of works determined using the cost-to-cost method. Consequently, the Company periodically analyses the contract value and the estimation of costs during works execution and reflects any rectifications made in proportion to the percentage of the project completed in the period.

In the event that these adjustments result in a reduction of the margins previously recognised in relation to a project, the Company is necessarily compelled to reconcile the result of that project. This reconciliation may be material and represent a reduction in the net income for the year against which the adjustment is recorded.

The current estimates of contract costs and therefore the profitability of our long-term projects, even if reasonably reliable at the time they are carried out, could change due to the uncertainties associated with these types of contracts being influenced, for example, other

than by trends in the reference market, but also by climatic factors and changes in the planning and execution of activities related to individual work packages. In the event of significant cost adjustments, the reductions in profit over the whole project life cycle may cause a material impact on the current financial year and on future years.

Furthermore, change orders, which are an ordinary and recurring part of Saipem's activities, may increase (sometimes substantially) the scope of work and hence the costs associated with it.

Therefore, change orders, even if beneficial in the long term, can have the effect in the short term, if not approved by the client in a timely and adequate manner, of reducing the overall margin of the project with which they are associated.

In the event of a significant review of cost estimations or of revenues on a project, the Group would be obliged to effect adjustments of those estimates. Although the actual estimations on multi-year projects are deemed correct and are carefully measured, the Group is nevertheless exposed to risks related to the possible volatility of progress in execution phase.

In addition, the disputes associated with change orders may lead to a reduction in revenues and margins previously declared and hence in current profit.

To mitigate the effects of these risks, over the years Saipem has developed an accurate and detailed process of constant and timely monitoring of the economic and financial performance of the projects.

Additionally, Saipem regularly performs a timely exercise in estimating and assessing the value of contracts and costs together with detailed risk assessments to cover any areas of uncertainty that are inevitably present in each project (so-called contingencies).

These assessments and estimates are constantly monitored by Saipem also through the Internal Control System on Financial Reporting in compliance with Legislative Decree No. 58 (Consolidated Financial Act).

### **Risks related to health, safety and the environment**

Saipem is subject to laws and regulations for the protection of health, safety and the environment at national, international and EU level. In particular, 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.

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. Despite the adoption of these procedures 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.

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 (more information in the 'Consolidated Non-Financial Statements').

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.

Lastly, 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 Statements').

## Risks related to incidents involving strategic assets

The Group possess numerous assets, in particular specialised vessels, fabrication yards and logistical basis, which are used in the execution of EPCI projects and Drilling services.

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.

Specifically, it should be noted that these certifications must be confirmed on a yearly basis following inspections that the classification bodies carry out on board the vessels. In addition, on the basis of the technical characteristics and type of each vessel, Saipem's fleet must satisfy the requirements of the international regulations applicable in the maritime field (IMO - International Maritime Organization conventions, such as MARPOL, ISM, ISPS, etc.).

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. In particular, the risks connected with ordinary operations can be characterised by:

- (i) mistaken or inadequate execution of manoeuvres and work sequences that lead to damage for assets or facilities; and
- (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.

Finally, to avoid and mitigate these risks, the Group sustains significant costs for the maintenance of its proprietary assets.

Maintenance costs sustained by Saipem from time to time may increase through events such as: (i) increased costs of labour and materials and services; (ii) technological modernisation; (iii) regulatory or legislative changes as regards safety, environmental protection.

Specifically, Saipem has developed various prevention initiatives, including 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 tasks familiarisation cards for managing the development of personnel assigned to specific roles or the use of critical equipment (more information in the specific

section of detail within the 'Consolidated Non-Financial Statements').

## **Risks related to the political, social and economic situation of the countries in which Saipem operates**

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 with other countries may temporarily or permanently compromise the Saipem 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 underway in conditions that differ from those originally anticipated.

Saipem periodically monitors the political, social and economic risks of 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 unlawful 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 those Company assets that remain in the country subject to political instability, 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 have a negative impact on the margin of projects executed in such countries. Moreover, the staff, operations and assets in the different countries where Saipem is present are potentially exposed to the threat

of terrorism on a global scale by various types of extremist groups.

Therefore, 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.

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); (vi) changes of national tax regimes, tax incentives, rulings with the tax authorities, international tax treaties and, in addition, risks associated with their application and interpretation in the countries where the Group companies operate.

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. For this reason, Saipem constantly monitors changes in the 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 specialised consultants.

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 Statements').

## Risks related to relations with employees and labour unions

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, which include multiple situations that influence relations with staff and, where present, with trade unions. Such relationships, if not properly managed, 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. 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 programmes 'Fit For the Future' and 'Fit For the Future 2.0', taking into account the relationships with the staff and trade unions. 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 and trade unions and reaching and renewing specific agreements with the social partners involved (more information in the specific section within the 'Consolidated Non-Financial Statements').

## 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

- 'Vessel fleet' 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 Remote Operating Vehicles (ROV), etc.;
- 'Transport' policy: covers any transport, movement and storage of items and equipment via land, sea and air;
- 'Sites and Property' policy: covers real estate, offices, warehouses and shipyards owned or leased;
- '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 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 the specific 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.

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

## Issuance of fixed rate non-convertible bond

On March 29 and October 27 2017, Saipem issued fixed-rate bonds for €500 million each with respective expiry dates of April 2022 and January 2025. The notes were issued by Saipem Finance International BV under the existing Euro Medium Term Notes Programme (EMTN Programme). The bonds pay a fixed annual coupon of, respectively, 2.75% and 2.625%. The notes listed on the Euro MTF of the Luxembourg Stock Exchange and have been purchased initially by institutional investors mainly in Italy, the UK, France, Germany, and Switzerland. The resources deriving from bond loans, together with the use of other lines of credit and liquid assets, have been allocated to the total early repayment of the credit line of €1,600 million.

## Renewal of the EMTN Programme

On June 27, 2017, Saipem renewed the EMTN Programme (Euro Medium Term Notes) for one year of non-convertible bonds increasing the total maximum amount to €3 billion (of which €2 billion already issued).

## Reverse stock split

On May 22, 2017, the reverse stock split operation began for 10,109,668,270 ordinary shares and 106,126 savings shares, none with a nominal value, with a ratio of one new ordinary share also without nominal value for every ten existing ordinary shares, and of one new savings share also without nominal value for every ten existing savings shares.

## Change in the share capital

On May 22, 2017, Saipem announced the new composition of the share capital, fully underwritten and paid up, following the grouping of the ordinary and savings shares. The amount of share capital remains unchanged at €2,191,384,693 divided into 1,010,977,439 shares without nominal value, of which 1,010,966,827 ordinary shares and 10,612 savings shares. As at December 31, 2017, following the conversion of savings shares into ordinary shares, the composition of the share capital, which still totals

€2,191,384,693 divided into 1,010,977,439 shares – none with a nominal value, is equal to 1,010,966,841 ordinary shares and 10,598 savings shares.

## Long-term Monetary Incentive Scheme

On July 26, 2017, Saipem launched the buy-back programme (the 'Programme') for Saipem ordinary shares approved by the Shareholders' Meeting on April 28, 2017. The goal of the Programme was the buy-back of the Company's own shares to cover the 2017 allocation of the 2016-2018 Long Term Incentive Plan (the 'Plan'), as approved by the Shareholders' Meeting on April 29, 2016, pursuant to Article 84-*bis*, paragraph 2 of the Issuers' Regulation and Article 114-*bis* of Italian Legislative Decree No. 58/1998. On August 2, 2017, Saipem reported the conclusion of the programme. In the period between July 26, 2017 and August 1, 2017 (excluding first and last dates), 7,841,200 treasury shares were purchased (equal to 0.776% of the share capital), corresponding to the number indicated by the Board of Directors on July 24, 2017. Therefore, taking into account the treasury shares already in the portfolio at the start of the Programme (7,106,134 treasury shares, equal to 0.703% of the share capital) and purchases of treasury shares carried out in execution of the Programme, as at December 31, 2017 Saipem holds 14,856,780 treasury shares, equal to 1.47% of the share capital. On March 5, 2018, following a proposal from the Compensation and Nomination Committee, the Board of Directors resolved to submit to the Ordinary Shareholders' Meeting a proposal to authorise the buy-back of treasury shares, up to a maximum of 8,800,000 ordinary shares and, at any rate, not exceeding the maximum sum of €38,500,000. These shall be destined for the 2017 award of the 2016-2018 Long-Term Incentive Plan ('Plan'). The proposal provides that the buy-back may be achieved gradually as deemed appropriate through purchase on the market at a unit price not lower than the minimum and not higher than the maximum official price registered on the day of stock market trading preceding each individual buy-back transaction, decreased or increased respectively by 5% and, at any rate, at a price that is no higher than the highest price between that of the latest independent transaction and that of

highest current independent offer of purchase during the same trading session, pursuant to Article 3 of Regulation (EU) 2016/1052.

## Regulation on Markets

### **Article 15 (former Article 36) 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, 2017, the regulatory provisions of Article 15 of the Regulation on Markets applied to the following 19 subsidiaries:
  - Saudi Arabian Saipem Ltd;
  - Petrex SA;
  - Snamprogetti Saudi Arabia Co Ltd Llc;
  - Saipem America Inc;
  - PT Saipem Indonesia;
  - Saipem do Brasil Serviçõs de Petroleo Ltda;
  - Boscongo SA;
  - Saimexicana SA de Cv;
  - Saipem Canada Inc;
  - Saipem Services Mexico SA de Cv;
  - Saipem Misr for Petroleum Services (S.A.E.);
  - Sigurd Rück AG;
  - Sajer Iraq for Petroleum Services, Trading, General Contracting & Transport Llc;
  - Saipem Offshore Norway AS;
  - Saipem Drilling Norway AS;
  - Snamprogetti Engineering & Contracting Co Ltd;
  - Saipem Contracting Nigeria Ltd;
  - ER SAI Caspian Contractor Llc;
  - 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, 2017, 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 amounts of trade, financial or other operations with related parties are provided in note 49 to the 'Notes to the consolidated financial statements'.

## Outlook

2018 is expected to be characterised by a market scenario with weak signs of recovery, as the recent growth in the oil price has not, at the moment, resulted in the oil companies speeding up their investment programmes, even though some positive signs in certain market segments have been noted.

The backlog at the end of 2017, combined with prospects of commercial tender under award, underpin expectations of achieving revenues of around €8 billion for the financial year 2018, with an adjusted EBITDA margin in excess of 10%. Technical investments are expected to be at around €300 million, while the net debt is expected to be around €1.1 billion at the end of 2018. This guidance does not include effects on the net financial position and on investments deriving from the purchase of the vessel detailed in subsequent events.

## 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 'Directors' Report' 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.

## Events subsequent to year end

### New contracts

On February 15, 2018, Saipem was awarded a new contract, valued at USD 750 million, in the Onshore Engineering & Construction sector. Work involves engineering, procurement,

construction and commissioning under Package 3 'Offsite Facilities' in the framework of the development of the Duqm Refinery situated near the coast in the north east of Oman.

### Purchase of new vessel

On March 22, 2018, Saipem has entered into an agreement to acquire the Ultra Deepwater Rigid and Flexible Pipelay, 3,000-tonne Heavy Lift and Construction Vessel Lewek Constellation. The Constellation will be marketed in all geographic areas including the Gulf of Mexico and the North and Norwegian Seas where the vessel characteristics make it suitable to pursue the Subsea Tie-Back initiatives predominant in those areas. The Constellation will be acquired for USD 275 million through the partial utilisation of available liquidity. Guidance 2018 on the capex and net debt disclosed on March 6, 2018 did not provide for this investment. In view of the time needed to finalise the commercial efforts underway in this business segment, guidance 2018 for revenues and adjusted EBITDA will remain unchanged.

### Consob Resolution

With regard to the disclosure relating to Consob Resolution No. 20324, received on March 2, 2018, reference should be made to note 54 and to the section 'Information relating to the remark expressed by Consob pursuant to Article 154-ter, subsection 7, of Legislative Decree No. 58/1998, and communication by Offices of Consob on April 6, 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)	Dec. 31, 2016		Dec. 31, 2017	
Reclassified balance sheet items (where not stated otherwise, items comply with 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		5,192		4,581
<i>Note 14 - Property, plant and equipment</i>	5,192		4,581	
B) Net intangible assets		755		753
<i>Note 15 - Intangible assets</i>	755		753	
C) Investments		147		141
<i>Note 16 - Investments</i>	149		143	
<i>Reclassified from E) - provisions for losses related to investments</i>	(2)		(2)	
D) Working capital		713		957
<i>Note 9 - Trade and other receivables</i>	3,020		2,411	
<i>Reclassified to I) - financing receivables not related to operations</i>	(2)		(2)	
<i>Note 10 - Inventories</i>	2,242		1,893	
<i>Note 11 - Current tax assets</i>	192		213	
<i>Note 12 - Other current tax assets</i>	241		221	
<i>Note 13 - Other current assets</i>	144		185	
<i>Reclassified to I) - financing receivables not related to operations</i>	(1)		-	
<i>Note 17 - Deferred tax assets</i>	302		268	
<i>Note 18 - Other non-current assets</i>	102		102	
<i>Note 20 - Trade and other payables</i>	(4,860)		(4,036)	
<i>Note 21 - Income tax payables</i>	(96)		(47)	
<i>Note 22 - Other current tax liabilities</i>	(265)		(191)	
<i>Note 23 - Other current liabilities</i>	(244)		(24)	
<i>Note 27 - Deferred tax liabilities</i>	(59)		(35)	
<i>Note 28 - Other non-current liabilities</i>	(3)		(1)	
E) Provisions for contingencies		(266)		(338)
<i>Note 25 - Provisions for contingencies</i>	(268)		(340)	
<i>Reclassified to C) - provisions for losses related to investments</i>	2		2	
F) Provisions for employee benefits		(206)		(199)
<i>Note 26 - Provisions for employee benefits</i>	(206)		(199)	
<b>EMPLOYED CAPITAL, NET</b>		<b>6,335</b>		<b>5,895</b>
G) Shareholders' equity		4,866		4,558
<i>Note 31 - Saipem shareholders' equity</i>	4,866		4,558	
H) Non-controlling interests		19		41
<i>Note 30 - Non-controlling interests</i>	19		41	
I) Net debt		1,450		1,296
<i>Note 7 - Cash and cash equivalents</i>	(1,892)		(1,751)	
<i>Note 8 - Other financial assets held for trading or available for sale</i>	(55)		(69)	
<i>Note 19 - Short-term debt</i>	152		120	
<i>Note 24 - Long-term debt</i>	3,194		2,929	
<i>Note 24 - Current portion of long-term debt</i>	54		69	
<i>Reclassified from D) - financing receivables not related to operations (Note 7)</i>	(3)		(2)	
<b>FUNDING</b>		<b>6,335</b>		<b>5,895</b>

### Reclassified income statement

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

- the item 'other income and revenues' (€18 million) relating to 'reimbursements for services that are not part of core operations' (€13 million), 'compensation for damages' (€2 million) and 'contractual penalties' (€3 million), which are indicated in the statutory scheme under 'other finance income (expense)', were recognised in the reclassified income statement as a reduction in the related costs;
- 'finance income' (€309 million), 'finance expenses' (-€617 million) and 'derivatives' (€85 million), which are indicated separately under the statutory scheme, are stated under the item 'finance (expense) income' (-€223 million) 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 for the following reclassifications:

- the items 'depreciation and amortisation' (€505 million), 'net impairment of tangible and intangible assets' (€231 million), 'other changes' (€39 million) and 'effect of accounting using the equity method' (€9 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' (€784 million);
- the items 'income taxes' (€201 million), 'interest expense' (€88 million) and 'interest income' (-€7 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' (€282 million);
- the items regarding changes in 'trade receivables' (€429 million), to changes in 'inventories' (€220 million), to 'provisions for contingencies' (€69 million), to 'trade payables' (-€397 million) and 'other assets

and liabilities' (-€244 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' (€77 million);

- the items 'interest received' (€6 million), 'dividends received' (€2 million), 'income taxes paid net of refunds of tax credits' (-€317 million) and 'interest paid' (-€66 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' (-€375 million);
  - the items relating to investments in 'tangible assets' (-€253 million) and 'intangible assets' (-€9 million), indicated separately and included in cash flow from investing activities in the statutory scheme, are shown net under the item 'capital expenditure' (-€262 million);
  - the items relating to disposals of 'tangible assets' (€12 million), 'shareholdings' (€4 million) and 'consolidated subsidiaries and businesses' (€1 million), indicated separately and included in cash flow from disposals, they are shown net under the item 'partial disposals' (€17 million);
  - the items relating to disposals in 'financing receivables' (€6 million), investments in 'securities' (-€14 million) and investments in 'financing receivables' (-€4 million), indicated separately and included in cash flow used in investing activities in the statutory scheme, are shown under the item 'borrowings (repayment) of debt related to financing activities' (-€12 million), net of 'other changes related to financing' (€1 million);
  - the items 'proceeds from long-term debt' (€1,392 million), 'increase (decrease) in short-term debt' (€43 million) and 'repayments of long-term debt' (-€1,642 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' (-€207 million).
- All other items are unchanged.

# CONSOLIDATED NON-FINANCIAL STATEMENTS

in accordance with Italian Legislative Decree No. 254 of December 30, 2016

*The 'Consolidated Non-Financial Statements' is the document that reports on the progress of the management of non-financial aspects and describes the Group's policies, its activities, the main results and impacts generated over the year, in terms of indicators and trend analyses.*

## Methodology, principles and reporting criteria

The 'Consolidated Non-Financial Statements' is drawn up in accordance with Italian Legislative Decree No. 254/2016 and the provisions of the 'Sustainability Reporting Guidelines' of the Global Reporting Initiative (GRI) - G4 version 'in accordance' with the Core option (see the 'GRI Content Index'). The Core option requires that the 'General Standard Disclosures' (34 compulsory indicators), the description of the management approach and at least one 'Specific Standard Disclosures' indicator is shown for each material aspect (refer to the 'Table of correspondence with the GRI aspects'). The 'Consolidated Non-Financial Statements' refers to the 'Directors' Report' and the 'Corporate Governance and Shareholding Structure Report' with regard to the content treated in detail in the above-mentioned documents and in turn it contains information that fulfils the obligations referred to in the first and second subparagraphs of Article 2428 of the Italian Civil Code, limited to the analysis of non-financial information.

In addition to the provisions outlined by legislation, the content of the document has been defined, as established by the provisions of the GRI G4 Guidelines, taking into consideration the principles of materiality, stakeholder inclusiveness, sustainability context, transparency and completeness. The principles of balance, comparability, accuracy, timeliness, clarity and reliability have been followed to guarantee the quality of the information contained in the document. This document constitutes the 'Consolidated Non-Financial Statements' of the Saipem Group as required by Italian Legislative Decree No. 254/2016.

Refer to the 'Risk management' section in the 'Directors' Report' for a description of the risks identified for the five areas of the decree and the topics defined as material.

The performance indicators, selected on the basis of the topics identified (see the 'Materiality analysis and content definition' section), have been collected on an annual basis. The information and quantitative data collection process has been organised in order to guarantee comparability over the data and analysis of the trends over a three-

year period, to allow for the proper interpretation of the information and a full overview for all the stakeholders interested in the evolution of Saipem's performance.

### Materiality analysis and content definition

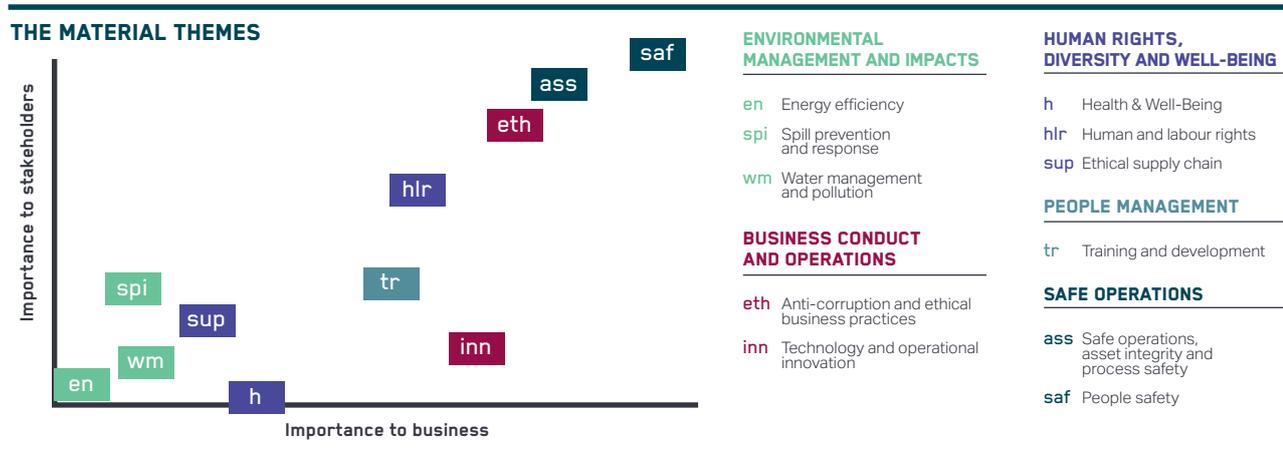
As provided by the GRI G4 Guidelines, Saipem implements a materiality analysis process every year. This is aimed at identifying the sustainability aspects of its business that could substantially influence the assessments and decisions of its stakeholders and are considered significant for the Company itself. The analysis is carried out with the involvement of both the main internal and external stakeholders. The different process phases are described below. **Identification of the relevant themes for the industry:** this first phase is based on an analysis of the sustainability context of Saipem's business, company stakeholders, including competitors, sustainability rating agencies and the means of communication. The stakeholders' level of interest was defined through interviews or questionnaires. Clients, NGOs, representatives of local communities, business partners, business associations, investors, authority representatives, vendors and employees were all involved. The second phase is **the identification of the priority themes for the Group**, which is carried out by consulting the senior managers, this too by means of a survey.

The respondents identified the most important topics, assessing them in accordance with the responsibility principle (topics that must be managed by Saipem as a responsible company) and the value created (economic, social, cultural, reputational, environmental, etc.) for Saipem itself, in favour of its stakeholders, and for civil society as a whole.

The overall importance of each theme is determined by the nexus of internal and external significance in accordance with the parameters described. Thus, the material topics are those considered relevant by both Saipem and the stakeholders. The final results of the materiality analysis were validated by the Sustainability Committee, chaired by the CEO and consisting of the top management,

and shared with the Corporate Governance Committee and Scenarios. The materiality matrix quadrant, in which the material topics are included, is represented below. This analysis shows that pollutant emissions

are not material due to the peculiarities of the Group's business. With regard to the reporting boundary, refer to the paragraph 'Reporting boundary' of this Statement.



**TABLE OF CORRESPONDENCE WITH THE GRI ASPECTS**

Topics required by Italian Legislative Decree No. 254/2016	Topics arising from the Materiality Analysis	Correspondence with GRI aspects
1) Environmental aspects	Energy efficiency, Water management and pollution, Spill prevention and response, Technology and operational innovation.	Energy, Emissions, Water, Effluents and waste.
2) Social aspects	Ethical supply chain.	Market presence, Supplier Assessment for Labour Practices, Supplier Human Rights assessment.
3) Fighting corruption	Anti-corruption and ethical business practices.	Anti-corruption.
4) Protecting Human Rights	Human and labour rights.	Child labour, Forced or compulsory labour, Non-discrimination, Labour practices grievance mechanism, Human rights grievance mechanism.
5) Personnel management	Training and development, People Safety, Health and well-being, Safe operations, asset integrity and process safety.	Employment, Training and education, Diversity and equal opportunities, Occupational Health and safety, Freedom of association and collective bargaining.

**Company management and organisation model**

Saipem completed redefining its industrial and organisational structure in 2017. The aim was to achieve performance improvement objectives and company governance processes, guaranteeing the Company a competitive advantage in better seizing the opportunities offered by the reference markets. The divisional configuration, formalised on May 1, 2017, includes:

- an operational Corporate structure with group-level steering and control that is responsible for managing critical or relevant issues and aspects of corporate governance;
- five divisions: Onshore E&C, Offshore E&C, Onshore Drilling, Offshore Drilling and XSIGHT, with full responsibility over business results globally and with all the decision-making, management and operational powers that are necessary for the pursuit of the targets set.

In order to allow full operability to the adopted model, in accordance with the company compliance and governance standards:

- the entire Saipem system of powers and proxies was redefined, granting proper powers to the division managers and different categories in the organisational structure;
- each division started a total review process for its own operational and work process models – with the purpose of pursuing the overall optimisation objectives and seizing the specific opportunities in the individual business.

In this context it was necessary to reorganise the process and architecture map of the entire regulatory system with the dual objective of: (i) formalising the changes introduced with regard to the new organisational model and (ii) aligning the system with the new steering and control role attributed to Corporate and with the worldwide operational and coordination role ensured by each division.

## Organisation, Management and Control Model of Saipem SpA - 'Model 231 (includes the Code of Ethics)'

At its meeting on March 22, 2004, the Board of Directors of Saipem SpA resolved to adopt an organisation, management and control model pursuant to Italian Legislative Decree No. 231 of 2001 (hereinafter, 'Model 231'), aimed at preventing the offences specified by Italian Legislative Decree No. 231/2001.

Later, through specific projects **Model 231** was updated to reflect changes in the legislation and in the company organisation of Saipem SpA.

In particular, subsequent updates of Model 231 have taken into account the following:

- changes in Saipem SpA's company organisation;
- trends in case law and legal theory;
- observations related to the application of Model 231, including any experience from criminal proceedings;
- procedures of Italian and foreign companies with regard to these models;
- the results of supervisory activities and the findings of internal audit activities;
- changes in legislation and in Confindustria's Guidelines.

Finally, also after the removal of the management and coordination of Eni SpA on January 22, 2016, the CEO, on July 28, 2016, initiated the programme to implement the innovations for a review of the structure of Model 231 and the Code of Ethics, which is an integral and substantial part of Model 231, and a general Risk Assessment regarding the crimes set out by Italian Legislative Decree No. 231/2001.

The purpose was to review Model 231 and the document 'Sensitive activities and specific control standards for the Model 231 of Saipem SpA' renamed (in line with best practices) 'Special Section of Model 231 - Sensitive activities and specific control standards' with the purpose of aligning them with:

- the regulatory updates;
- the organisational changes that have taken place;
- trends in case law and legal theory;
- best practices.

This review led the Board of Directors of Saipem SpA to approve the new 'Model 231 (includes the Code of Ethics)' and the document 'Special Section of Model 231 - Sensitive Activities and specific Control Standards' of Saipem SpA on January 15, 2018.

After the various timely updates made over the years, Model 231 of Saipem SpA has also been updated, inter alia, in accordance with the following regulations:

- Italian Legislative Decree No. 24 of March 4, 2014, which intervened in the context of the trafficking of human beings and the protection of the victims amending Article 600 of the Italian Penal Code (reduction to

or maintenance in a state of slavery or servitude) and Article 601 of the Italian Penal Code (trafficking of persons);

- Italian Legislative Decree No. 39 of March 4, 2014, which introduced the crime of 'grooming minors' into the crimes set out in Italian Legislative Decree No. 231/2001;
- Law No. 68 of May 22, 2015, 'Provisions related to crimes against the environment' (so-called 'Ecoreati', 'Eco-crimes Act'), which introduces new cases of environmental crime;
- Law No. 167 of November 20, 2017, 'Provisions for fulfilling the obligations arising from Italy being part of the European Union - European Law 2017'. The provision aims to bring domestic regulations in line with EU regulations, also intervening on the liability of legal entities. In regulating the fight 'against some forms and expression of xenophobic racism by means of criminal law', the new Article 25-*terdecies*, 'Racism and Xenophobia' provides for this as a crime within Italian Legislative Decree No. 231/2001;
- Law No. 179 of November 30, 2017 on 'Provisions for the protection of those reporting crimes or irregularities that they may have become aware of in the context of their public or private employment'.

## Corporate Governance

Saipem adopts a system of Corporate Governance that is based on the general and special regulations applicable to the Articles of Association, the Code of Ethics, the recommendations contained in the Self-Regulation Code of the Italian Stock Exchange and the best practices on the subject.

Saipem's system of Corporate Governance is founded on the central role of the Board of Directors, and on the transparency and the effectiveness of the internal audit system. For a more detailed description of the governance of the aspects required by Italian Legislative Decree No. 254/2016, refer to the 'Corporate Governance and Shareholding Structure Report', in particular the section 'Governance of Sustainability' and the sections regarding the Board of Directors, internal committees and risk management. The above-mentioned document is present in the Corporate Governance section of the Company's website.

## Relations with stakeholders

The identification and involvement of all bearers of legitimate interests are fundamental aspects of the Company's sustainability strategy. Pursuing a constant dialogue and sharing objectives with all stakeholders are the means through which it is possible to create reciprocal value.

The approach developed by Saipem over time is designed to ensure open and transparent relations with the parties involved and promote positive and mutually advantageous interactions.

In 2017, Saipem published the **'Stakeholder Engagement' Management System Guideline (MSG)** defining the principles and responsibilities at the basis of Saipem's stakeholder engagement process, in line with the new organisational structure.

This guideline is an important tool designed to implement the Sustainability Model which ensures that sustainable development goals are met through a series of transversal company processes, strengthening value creation, ensuring a stable presence in the territories and the effective implementation of Saipem's operational activities.

The main issues that have arisen over the year from the stakeholder engagement process consist of the topics considered material.

The priorities among these are: people safety and safe operations, asset integrity and process safety, anti-corruption and ethical

business practices, and human and labour rights. In order to meet the stakeholders' expectations on these issues in terms of transparency and the definition of the concrete commitments, Saipem provides detailed reporting in this statement and in the 'Saipem Sustainability 2017' document.

## STAKEHOLDER ENGAGEMENT



### Stakeholder approach

Financial stakeholders	<ul style="list-style-type: none"> <li>- Continuous dialogue with the financial community.</li> <li>- Commitment to ensuring the utmost transparency and fair access to confidential information.</li> <li>- Periodic publication of information through press releases and presentations.</li> <li>- Periodic meetings with institutional investors and financial analysts.</li> <li>- Individual shareholders can interface directly with the Company Secretary.</li> </ul>
Clients	<ul style="list-style-type: none"> <li>- Constant reporting and frequent meetings on operating projects.</li> <li>- Meetings organised with clients and potential clients also include sustainability aspects.</li> <li>- Proactive engagement in HSE initiatives such as environmental awareness campaigns or LiHS (Leadership in Health and Safety) programmes.</li> </ul>
Employees	<ul style="list-style-type: none"> <li>- Commitment to recruiting and retaining talented personnel and promoting their development, motivation and skills.</li> <li>- Guarantee a safe, healthy work environment and stable relations with the trade unions to ensure an open dialogue based on cooperation.</li> </ul>
Local Authorities and Governments	<ul style="list-style-type: none"> <li>- Customised engagement with local governments and authorities.</li> <li>- Institutional and official relations with authorities, as well as collaboration with public bodies to launch initiatives in favour of local development projects.</li> </ul>
Local communities	<ul style="list-style-type: none"> <li>- Contribution to progress in local communities in terms of social and economic development and improvement in living conditions. Each operating company or project has a specific approach that takes the Company's role and the specific context into account.</li> <li>- Active involvement of local communities in the implementation of local development projects.</li> </ul>
Local organisations and NGOs	<ul style="list-style-type: none"> <li>- Regular publication of information, objectives and results through Saipem's institutional channels.</li> <li>- Identification of organisations with proven experience and integrity with which to establish short and medium-term relations in order to facilitate the implementation of specific projects.</li> </ul>
Vendors	<ul style="list-style-type: none"> <li>- Commitment to developing and maintaining long-term relations with vendors. The process of vendor management makes it possible to assess their reliability from technical, financial and organisational capabilities.</li> <li>- Proactive commitment in HSE initiatives such as environmental awareness campaigns or LiHS (Leadership in Health and Safety) programmes.</li> </ul>
Business association	<ul style="list-style-type: none"> <li>- Active participation and support for numerous international and local associations, contributing to sharing 'best practices' within Saipem's business sectors.</li> <li>- Contributions to strengthening Saipem's role in its industries and its relations with other stakeholders (i.e. clients, local stakeholders, etc.).</li> </ul>

## Protecting the environment and minimising environmental impacts

Saipem is aware that all its activities, from the planning and design stages to construction and operation, may potentially have an impact on the environment.

As described in the HSE Policy of Saipem SpA, the Company is committed to preventing

any potential impacts caused by its activities and to using energy and other natural resources efficiently.

**Saipem adopts all the necessary measures to ensure environmental protection** when carrying out its activities to minimise and correctly manage the significant environmental aspects and impacts that may arise, both from activities managed directly by Saipem personnel using its own vessels, and

also from Saipem operational projects managed by third parties (clients, subcontractors, etc.). Moreover, Saipem pays the utmost attention to the constant improvement of its environmental performance. In order to ensure these results, Saipem has implemented an **Environmental Management System certified in accordance with the ISO 14001 international standard**. In 2017, Saipem extended the certification in accordance with this standard covering all the Group's relevant entities.

Furthermore, the Company invests in **research and development programmes** to create technologies that minimise the environmental impact of its operations, and to provide a service to the reference sector, and organises specific initiatives designed to promote environmental awareness and the dissemination of best practices, also involving external parties as their potential targets. Further information can be found in the 'Research and development' section of the 'Directors' Report' and in 'Saipem Sustainability 2017'.

### Spill prevention and response

Spills are one of the most significant environmental issues for the sector in which Saipem operates. Spill prevention and response actions are an absolute priority for the Company. Saipem operates by **minimising the risk of spills** and adopts advanced equipment and procedures to

implement **actions that reduce and manage emergencies**. Saipem's strategy for managing potential accidental spills is based on the following hierarchy of actions:

- *Prevention*: actions have been implemented to harmonise and improve processes and operational control of those sites and vessels which are most at risk.
- *Training and preparedness*: specific training packages are delivered on spill prevention, and spill drills are periodically organised, that are designed to strengthen emergency management skills. The drills are carried out both on land and at sea, involving, if necessary, clients or third parties designated for emergency response activities.
- *Emergency response*: all Saipem sites have the necessary equipment for tackling any emergencies which may occur and specific Spill Response Teams have been set up. The sites implement a spill management plan which identifies the accident scenarios and response procedures and can also include the intervention of designated third parties.
- *Reporting*: the data concerning spills and 'near misses' (events linked to operating activities that could have caused environmental damage) are monitored and subsequently analysed to assess the causes and prevent any recurrences.

Further information on the actions taken by Saipem to reduce the risk of spills can be found in the 'Spill prevention and response' section of 'Saipem Sustainability 2017'.

		2015		2016		2017	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
<b>Number of spills</b>							
Total	(No.)	38	38	30	28	26	23
Chemical spills	(No.)	4	4	5	3	8	8
Oil spills	(No.)	34	34	25	25	18	15
<b>Spill volumes</b>							
Total	(m <sup>3</sup> )	2.18	2.10	4.26	3.01	6.21	6.07
Chemical spills	(m <sup>3</sup> )	0.06	0.04	0.71	0.18	3.58	3.58
Oil spills	(m <sup>3</sup> )	2.12	2.06	3.54	2.83	2.63	2.49

The total number of spills decreased in 2017 if compared to the previous year.

Nevertheless, there were three significant spills:

- the first spill consisted of water-based mud contaminated with debris from the cementing activities (2,500 litres) of an onshore drilling rig in Chile due to the obstruction of a discharge line to the debris well. Checks, cleaning and testing of the circulation and discharge pipes were carried out and actions were taken to improve the maintenance management on the system;
- the second was an oily substances spill

(around 1,000 litres) during activities related to filling a diesel fuel tank in Saudi Arabia.

- The Spill Response Team was immediately mobilised after notification of the emergency. The contaminated sand was collected and removed; technical prevention measures were taken on the site;
- the third was an oil spill (1,000 litres) that occurred during lifting operations of a small gasoil tank from a supply vessel to the WHP3 platform at the Boscongo yard (Congo). Modifications in the execution of similar procedures were introduced after the accident in order to minimise risks.

## Energy efficiency and GHG emissions

Saipem's approach to energy efficiency (and consequently to greenhouse gas emissions) has become increasingly more structured over the years.

**Energy assessments, in line with the ISO 50000:2011 standard**, have been carried out over the years on selected assets: significant office buildings, vessels, construction yards and drilling vessels. The choice of assets to be assessed is made in accordance with the following criteria: level of criticality in terms of consumption, level of control, feasibility of intervention, and need for regulatory compliance. These assessments laid the foundation for identifying the areas where **energy efficiency can be increased**.

A technical-economic feasibility study of the solutions identified was carried out and submitted to management for the definition of an action plan.

Further information on the initiatives that Saipem has implemented over the years with the purpose of increasing energy efficiency in its operations can be found in the 'Tackling climate change' section of 'Saipem Sustainability 2017'.

Saipem has developed a methodology to estimate emissions for each specific emission source. This methodology was reviewed and validated by a third party. Activities to review emissions factors used for energy consumption from fuel (direct emissions) were started in 2017.

The calculation methodology will also be extended in 2018 to greenhouse gas emissions from electricity and transportation (indirect emissions). All Saipem projects and sites monitor its energy consumption data on a quarterly basis which is then used to calculate GHG emissions. An in-depth analysis dedicated to Saipem's approach on climate change can be found in the 'Tackling

climate change' section of 'Saipem Sustainability 2017'.

Energy consumption increased by 11% in 2017 against 2016 (7% considering the Group perimeter), in line with an increase in activities at significant operating projects. The projects contributing the most to the increase in energy consumption are: Zohr (Egypt), which involved many vessels in the fleet, including Castorone, Saipem 10000 and Normand Maximus; the SCPX Pipeline project (Azerbaijan); Jazan Integrated Gasification Combined Cycle and EPC Khurais (Saudi Arabia); the Hydrodesulfuring gas plant project at the Minatitlan Refinery Plant (Mexico) and Tangguh LNG Expansion (Indonesia).

These last two projects and the Normand Maximus vessel saw the most significant increase in energy consumption compared to the previous year.

The increase in the consumption of gasoline is mainly due to the execution of two onshore projects: the EPC Khurais project (Saudi Arabia), because of the greater use of vehicles, and the Southern Swamp Associated Gas Solutions project (Nigeria), due to the consumption of the PMS (Pavement Management System) for overland transport. The increase in the use of Diesel Marine Oil is mainly due to the use of the Normand Maximus vessel and the start-up of the new onshore Tangguh LNG Expansion project in 2017, as typically occurs in the first operational phases. The increase in the use of electricity from renewable sources is due to the full operating efficiency reached by the San Vitale logistics base (Ravenna, Italy) in 2017 in producing a constant quantity of renewable electricity throughout the year.

Moreover, an 11% increase in self-produced renewable resources was also recorded in Fano (Italy). This latter increase can be attributed to the contingent meteorological conditions over the year.

		2015		2016		2017	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
<b>Energy consumption</b>	(ktoe)	<b>514.0</b>	<b>498.3</b>	<b>411.7</b>	<b>393.8</b>	<b>440.6</b>	<b>430.8</b>
Total direct consumption of energy, of which:	(ktoe)	488.2	472.8	388.1	370.5	419.3	409.5
- Natural Gas	(ktoe)	1.5	1.5	1.4	1.4	1.1	1.1
- Heavy Fuel Oil (HFO)	(ktoe)	-	-	-	-	1.0	1.0
- Intermediate Fuel Oil (IFO)	(ktoe)	21.0	21.0	7.5	7.5	12.8	12.8
- Light Fuel Oil (LFO)	(ktoe)	28.7	28.7	1.4	1.3	4.5	4.5
- Diesel	(ktoe)	290.6	275.3	256.6	238.9	246.6	236.9
- Diesel Marine Oil	(ktoe)	139.7	139.7	111.8	111.8	141.8	141.8
- Gasoline	(ktoe)	6.8	6.7	9.5	9.5	11.5	11.4
<b>Indirect energy consumption</b>							
Electricity	(MWh)	112,094.5	110,580.2	102,343.4	101,083.6	92,309.9	92,307.7
<b>Renewable energy</b>							
Electricity produced from renewable sources	(MWh)	309.9	309.9	305.0	305.0	352.4	352.3
<b>Emissions</b>							
Total emissions (Scope 1)	(kt CO <sub>2</sub> eq)	1,504.2	1,466.3	1,203.4	1,177.2	1,299.7	1,269.3

## Water management

One of Saipem's commitments expressed in the HSE Policy comprises the protection of natural resources. Considering the geographical location of the Company's important operating activities, water is a significant aspect. In fact, Saipem is aware that it carries out important operating activities in water stressed areas, where the implementation of a strategy to **reduce consumption and use the resource**

**efficiently** is considered a priority. The re-use of water, after suitable treatment, is a key activity for minimising water consumption. The commitment to responsible management of water resources is transmitted to all company levels through the issue of annual Group HSE plans, which are then implemented by the divisions and operating companies. Further details on the initiatives and strategies in the use of water resources can be found in the 'Water management and pollution' section of 'Saipem Sustainability 2017'.

## Water consumption

		2015		2016		2017	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
<b>Total water withdrawal, of which:</b>	(10 <sup>3</sup> m <sup>3</sup> )	<b>5,226.4</b>	<b>4,989.8</b>	<b>6,972.9</b>	<b>6,807.3</b>	<b>7,690.4</b>	<b>7,546.0</b>
- fresh water from public network/third party	(10 <sup>3</sup> m <sup>3</sup> )	2,614.9	2,581.1	3,054.5	2,983.6	1,375.1	1,317.5
- groundwater	(10 <sup>3</sup> m <sup>3</sup> )	1,571.6	1,413.6	2,571.9	2,499.6	5,441.2	5,368.1
- surface water	(10 <sup>3</sup> m <sup>3</sup> )	152.8	138.7	69.5	69.5	188.3	188.3
- sea water	(10 <sup>3</sup> m <sup>3</sup> )	887.0	856.5	1,276.9	1,254.5	685.8	672.1
<b>Recycled and re-used water</b>							
Re-used water	(10 <sup>3</sup> m <sup>3</sup> )	309.9	297.7	308.4	308.5	1,179.8	1,179.2
	(%)	6	6	4	4	15	16

The increase in water consumption in 2017 is determined by the needs triggered mainly by select onshore projects, amongst which: Southern Swamp Associated Gas Solutions Project (Nigeria), SCPX Pipeline (Azerbaijan and Georgia) due to hydrotesting activities, EPC Khurais Project (Saudi Arabia), the gas storage project at Cornigliano Laudense Natural Gas Storage Plant (Italy) and the Tangguh LNG Expansion project (Indonesia), which determined a consistent increase in groundwater consumption for the civil works

phase. The percentage of re-used water increased very significantly compared to 2016 thanks to its use for street cleaning and irrigation (necessary activities at sites in some geographical areas). The main projects that have determined this increase are Jazan Integrated Gasification Combined Cycle and SHY 1 - Pipeline (both in Saudi Arabia). The discharged water has increased proportional to the increase in consumed water.

## Waste water discharges

	(10 <sup>3</sup> m <sup>3</sup> )	2015		2016		2017	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
<b>Total waste water produced, of which:</b>		<b>3,746.3</b>	<b>3,615.0</b>	<b>4,858.9</b>	<b>4,745.8</b>	<b>5,657.0</b>	<b>5,536.7</b>
- water discharged into sewers		569.4	539.2	427.7	485.4	642.8	642.8
- water discharged into bodies of surface water		1,182.2	1,182.2	2,556.3	2,504.6	3,605.4	3,605.4
- water discharged into the sea		1,064.6	964.4	1,142.7	1,023.6	515.4	395.1
- water discharged to other destinations		930.1	929.3	732.2	732.2	893.4	893.4

## Waste management

The Company implements a responsible waste management system that is specific for the type of operating activities. Waste management is tackled by applying a hierarchy of operations mainly aimed at **minimising the waste produced** through the use of appropriate procedures or technologies, **re-using it as material, and recycling it** after the most appropriate treatment. Priority is given to hazardous waste in the

context of action aimed at minimising waste generation. The Company promotes and implements measures, also through the research and development of new materials, which allow hazardous materials to be replaced with non-harmful alternatives. Saipem ensures appropriate waste management through waste management procedures/plans at both operating company level and individual project and site level. In following this approach, Saipem implemented numerous activities in 2017: some examples are shown in the 'Waste

generation and management' section of 'Saipem Sustainability 2017'.

The important reduction in waste generation that took place over the year is mainly due to the progress of the South Stream WP 5.1 project (Russia) which saw a peak in waste production in 2016 because the excavated land, as required by local legislation, was put down as non-hazardous waste disposed of in landfill sites. Moreover, 2017 saw the conclusion of the project to dispose of and recycle the Costa Concordia cruise ship, which also contributed to the reduction in

waste production. The project to dismantle and recycle the cruise ship was completed after 3 years of work. This project, in partnership with San Giorgio del Porto, was an important example of **green ship recycling**. With regard to hazardous waste, its increase is mainly due to select onshore projects.

The quantity of hazardous waste includes muds from the waste water treatment plant (Jazan Integrated Gasification Combined Cycle and EPC Khurais projects, Saudi Arabia) and waste oil (from the Rabigh II project, Saudi Arabia).

	2015		2016		2017	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
(kt)						
<b>Total weight of waste produced, of which:</b>	<b>508.5</b>	<b>472.2</b>	<b>907.6</b>	<b>902.0</b>	<b>431.3</b>	<b>426.0</b>
- hazardous waste disposed of in landfill sites	31.9	31.8	36.1 (*)	36.0	61.2	61.1
- hazardous waste incinerated	2.8	2.7	1.6	1.5	2.3	2.3
- hazardous waste recycled	5.0	4.8	18.7	18.3	6.9	6.9
- non-hazardous waste disposed of in landfill sites	285.8	282.4	140.0 (**)	135.6	172.4	168.6
- non-hazardous waste incinerated	6.4	5.8	3.0	3.0	3.6	2.6
- non-hazardous waste recycled	176.5	144.7	708.1	707.4	185.0	184.6

(\*) This data has been modified against the previous year after a recalculation.

## Social aspects

The Company operates in over 60 culturally and geographically different countries often in contexts characterised by difficult situations and border issues.

Saipem has established a lasting relationship of **mutual cooperation with local stakeholders**, particularly in the countries where it has a long term presence. Some significant examples are the collaborate efforts forged with various universities and schools, representatives of local institutions, non-governmental organisations present where Saipem operates and local organisations promoting development and health programmes.

Besides what is shown in this document, Saipem provides a detailed description of the stakeholder engagement actions in the section of 'Saipem Sustainability 2017' on 'Stakeholder engagement in 2017'. Saipem is always committed to minimising any negative impacts at the local level and contributing to maximising positive impacts through the implementation of **strategies that support local sustainable development**. The overall risk profile (including social ) for every project is identified, analysed and monitored from the commercial phase. Listening to and addressing local stakeholder grievances, also through structured engagement processes, is an important tool. The Company has drawn up a criteria (**Guidance on Grievance Management**) that regulates the system that collects and manages grievances from local communities in the operating realities where it is considered necessary. This has proven to

be especially useful for managing negative impacts.

Different countries (e.g. Nigeria, Azerbaijan, Italy, Russia) and some of the more significant operating realities (e.g. Tangguh LNG Expansion) have implemented such grievance management systems with the purpose of ensuring effective communication with the communities.

## Relations with the local context

Saipem is committed to establishing relations with its local stakeholders based on correctness and transparency in order to pursue **concrete shared objectives for sustainable development**. This is also achieved by strengthening mutual trust, seeking dialogue and promoting the right conditions in order to establish lasting cooperation in the countries where the Company operates (see 'Sustainability Policy').

Everywhere Saipem is present, it plays an active role, contributing as well to social and economic aspects and not only in terms of local employment and value creation. Saipem's local presence takes two forms: long-term presence where the Company owns fabrication yards or other operating structures; and short/mid-term presence where Saipem is involved in a specific project. Saipem's involvement and dialogue with local stakeholders therefore depends on the type of presence in each particular area .

Where Saipem has a long-term presence, the Company carries out specific assessments

designed to analyse the potential effects of its activities on the local socio-economic context, also through the use of tools such as the Socio-Economic Impact Assessment (SIA) or the ESIA (Environmental Social Impact Assessment). Based on the results of these assessments, Saipem prepares an action plan which defines the necessary actions to manage the impacts on local communities and the stakeholder engagement. To support this process, Saipem has implemented specific tools to analyse the local context and to identify and analyse the main stakeholders in order to define specific intervention plans. In operating projects, Saipem supports the client's activities, in line with their requests and indications in order to define an action plan for the creation of local value for the specific project.

### Local presence

For Saipem, local presence means **acquiring goods and services from local suppliers,**

### Local employment

	2015		2016		2017	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
(%)						
Local employees	80	78	80	78	76	74
Local (*) managers	44	43	45	44	46	45

(\*) Local manager means the total of the middle and senior managers. An employee is considered local if he/she works in the country where he/she was hired.

In 2017, local personnel was attested to be 74% (76% in the total Group perimeter), a figure that saw a decrease against the previous year mainly due to the decline in or conclusion of the operating activities in projects where personnel was mainly local. The percentage, despite the slight reduction, remains very high and concretely demonstrates Saipem's constant commitment to creating value in the areas where it operates employing local personnel and strengthening their managerial and technical competence and skills through training and on-the-job experiences. The percentage of local managers is calculated excluding the data of France and Italy; the inclusion of these countries would result in a percentage of 76% of local managers.

### Supply chain

Saipem has more than 26,000 first-tier vendors, of which around 7,000 qualified in the year. From a numerical point of view, the main geographical areas where the Company's vendors operate are Europe and the Americas. In 2017, the geographical areas in which Saipem ordered the most significant amount of goods and services are Europe, the Middle East, South-East Asia and Oceania.

**creating employment at local level and developing the know-how of local personnel,** increasing employment opportunities, **and of suppliers,** while strengthening their technological and managerial skill. In this way Saipem contributes to creating development opportunities for people and companies in the communities where it operates. Saipem's presence is also characterised by a commitment to developing and maintaining a continuous relationship with local communities, clients and local suppliers making it possible to obtain benefits also in terms of reduction in overall project costs and in the overall risk profile associated with operating activities.

Saipem has internally developed a model (**SELCE, 'Saipem Externalities Local Content Evaluation'**) to quantify the value of its local presence in economic, employment and human capital development terms. The SELCE model was validated in its application to the Italian context in 2015 by Nomisma Energia.

Saipem selects partners who share the same values and makes them active participants in the risk prevention process (ref. 'Our partners in the value chain' Policy). Saipem is committed to maintaining the trust put in the companies that work with and for Saipem and to improving mutual collaboration. With regard to this commitment, it shall be highlighted that more than 4,600 vendors have collaborated with Saipem for more than 10 years.

### Management of an ethical supply chain

The management of an ethical supply chain comprises several interrelated phases which can be summarised as follows: (i) vendor qualification, (ii) contractual phase, (iii) vendor monitoring and feedback.

#### (i) Vendor qualification

A vendor risk assessment is carried out during the vendor qualification phase to identify vendors based on ethical and sustainability risks depending on the country of operation and/or level of criticality of the products/services.

From the human and labour rights (HLR) perspective, vendors operating in countries classified as high risk in these terms are analysed based on the information and documents they submit during the qualification phase (questionnaire).

Similarly, for specific commodity codes considered as high risk for health and safety, a specific assessment is carried out to evaluate the Vendor's HSE management system. Moreover, for specific commodity codes, vendors undergo a counterparty risk assessment process. This includes analysis of its capabilities in economic, financial and organisational terms, as well as a risk assessment with regard to corruption and reputation of Saipem. This is ensured through in-depth checks, which include compliance with the anti-corruption guidelines, involvement of the vendor in any type of criminal offence or terrorist activity, the structure of its control chain, the management and Board of Directors/owner. Depending on the vendor criticality, the qualification process may require an assessment visit which consists of on-site verification, as well as of its technical, managerial, production, quality, HSE and logistics capabilities. If operating in high risk countries, the vendor may be subject to an assessment visit also including labour rights aspects. The audit scope focuses on child and forced labour, freedom of association and the right to collective bargaining, working hours, discrimination, disciplinary practices, and health and safety.

#### (ii) Contractual phase

**Saipem is committed to conducting relations with vendors in accordance with the highest ethical standards**, in compliance with all the applicable laws and the Code of Ethics (in which human and labour rights are fundamental concepts), safeguarding its own

reputation and that of its subsidiaries. Environmental, social and governance requirements are dealt with in Saipem's general terms and conditions. Vendors shall declare receipt and acknowledgment of contents of the 'Sustainability Policy' whereby Saipem undertakes to act as a sustainable Company and contribute to the long-term growth and value creation through the effective involvement of all stakeholders. Each party declares that its activities under the purchase order shall, in no event, imply unacceptable risks to people or the environment, and undertakes to manage and mitigate these risks in its everyday operating activities. Moreover, vendors working with Saipem SpA are required to accept Model 231 which includes the Saipem Code of Ethics. Similarly, when dealing with Saipem SpA affiliates, vendors are required to accept the Organisational, Management and Control Model (OM&C Model) and the Code of Ethics. When the value of the supply for specific activities, services and materials exceeds a predetermined amount, the specific vendor is subject to a counterparty risk assessment (the same process is also carried out during the vendor qualification phase).

#### (iii) Vendor monitoring and feedback

Vendor performance is continuously monitored and Saipem's relevant functions are also asked to **provide feedback regarding respect for workers' rights and the protection of health and safety** (e.g. occurrence of accidents/injuries during work execution, compliance with applicable HSE legislation and contractual specifications, existence of legal proceedings for serious violations/offences).

		2015	2016	2017
Active vendors	(No.)	32,931	29,959	26,345
Qualified vendors	(No.)	10,844	6,571	6,918
Vendors qualified in the year operating in countries classified as high risk for human and labour rights	(%)	-	60	59
New vendors assessed on labour rights	(No.)	367	106	94
Vendors qualified for activities considered at HSE risk	(%)	-	6	4
Vendors assessed on HSE aspects and qualified	(No.)	163	385	278
Qualification audits, of which:	(No.)	-	46	62
- on human and labour rights	(No.)	13	6	14
- on HSE	(No.)	-	5	3
Employees trained in sustainable supply chains	(No.)	-	147	115

It must be stated that numbers in the table are representative both for the Group total and the Group consolidated perimeters, because a qualified vendor at corporate level can potentially work with all Group realities.

## Saipem people

As described in the 'Our People' Policy on the management of human capital, 'people are an essential and key factor for the very existence of the organisation, and the company can achieve its objectives only through the commitment and expertise of its employees'.

The professional knowledge of employees is a key factor for ensuring sustainable growth and represents an asset to be safeguarded, valued and developed. Developing a knowledge-sharing culture is a primary means to consolidating the wealth of acquired knowledge and experience.

		2015		2016		2017	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Total employees at year end	(No.)	46,346	42,408	40,305	36,859	35,918	32,058
<b>Employee categories</b>							
Senior Manager	(No.)	417	411	399	396	398	393
Manager	(No.)	4,972	4,836	4,276	4,149	4,190	4,089
White Collar	(No.)	21,549	19,837	18,496	16,721	16,642	14,971
Blue Collar	(No.)	19,408	17,324	17,134	15,593	14,688	12,605
<b>Employee categories</b>							
Americas	(No.)	8,226	8,226	3,083	3,083	1,849	1,849
CIS	(No.)	4,550	4,129	3,169	2,925	2,743	2,481
Europe	(No.)	10,553	9,987	9,962	9,249	10,283	9,621
Middle East	(No.)	8,779	7,549	9,219	8,177	11,472	9,571
North Africa	(No.)	710	691	1,268	1,261	669	669
West Africa and the rest of Africa	(No.)	7,310	5,608	6,637	5,197	5,589	4,554
Far East	(No.)	6,218	6,218	6,967	6,967	3,313	3,313
<b>Type of contract</b>							
Employees with full-time contracts	(No.)	46,073	42,137	40,060	36,615	35,686	31,826
Employees with a key professional role	(No.)	17,840	-	14,991	14,161	14,177	13,154
Employees recruited through an employment agency	(No.)	4,489	2,996	5,643	4,403	5,829	4,111
<b>Turnover</b>							
Voluntary turnover of employees with key professional role	(%)	6.4	-	8.3	-	6.6	6.2
Total turnover	(%)	-	-	40	-	35	36

## Workforce trend

The reduction in the workforce in 2017 is due to the conclusion of some projects and to a decrease in operating activities in Indonesia, Azerbaijan, Mexico, Nigeria and Brazil. In the specific case of Brazil, the decline was determined by the rationalisation of personnel at Guarujá yard. The overall trend is determined by the reduction in or conclusion of operating activities in the following projects respectively: EPCI Kaombo, Sha Deniz 2, El Elcino, and Southern Swamp Associated Gas Solution.

The voluntary turnover of personnel with a key professional role is down on the 2016 figure, testimony to the Company's commitment to safeguard the critical skills and know-how for the business.

The overall turnover rate in 2017 was 36% (35% for the total Group perimeter), a value that must be put into context with (a) the extremely dynamic situation in the Oil & Gas market, which has led, following a significant industry-wide investment shrinkage, to a considerable reduction in operating activities and with (b) the nature of Saipem's business which, being a contractor, works through large scale projects that have variable durations (from a few months to years). Taking into account these peculiarities, the quali-quantitative amount of Saipem's human capital is therefore subject to a natural fluctuation connected with the different operating phases of projects and the cyclical

nature of clients' investment. This entails a considerable increase in the workforce in a given area at a given time and an equal reduction in the workforce towards the end of the project. The total turnover is calculated as the ratio between annual exits and the average resources in the year.

## Skills development

Saipem identifies the growth of its people, and more particularly the identification, evaluation and development of the skills considered critical for the business, as a driver for the company's success.

In this sense and in the framework of focusing constant attention on enhancing the specific technical/professional and behavioural skills of each professional family, Saipem has consolidated a **skill evaluation process for monitoring the skill and expertise levels of its resources** and identifying possible areas of intervention. These processes are functional both for a more targeted analysis of the company training requirements and a precise definition of the training initiatives for the skill development.

**In fact, Saipem ascribes great importance to the training of its people**, a tool for improving and developing professional and behavioural skills. The Company annually defines training programmes capable of guaranteeing the development of know-how and skills for all workers, with particular

attention to the technical/professional aspects, which are useful for project management, and the knowledge of legislative requirements, compliance and corporate governance.

Great attention is also dedicated to the development and consolidation of a common asset of know-how and skills, transversal to the different contexts in which the Company operates and connected to the company values and culture. In fact, Saipem promotes

training initiatives aimed at developing behavioural and managerial skills in line with the **Group Leadership model**.

With the objective of continuously investing in the young generations, Saipem likewise invests in the creation of specialist skills and the transfer of know-how through training programmes and on-the-job training, targeted at young students from schools and universities with which the Company starts up long-term partnerships.

(hours)	2015		2016		2017	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
<b>Training</b>						
Total hours of training, of which:	1,594,281 (*)	1,551,411	1,570,894 (*)	1,542,514	1,930,709	1,908,702
- HSE	1,165,952 (*)	1,124,376	1,324,853 (*)	1,297,778	1,699,674	1,677,713
- managerial potential and skills	36,390	36,268	24,446	24,385	15,090	15,090
- IT and languages	54,226	53,986	20,969	20,830	17,979	17,979
- professional technical skills	337,713	336,781	200,626	199,521	197,966	197,920

(\*) The data has been recalculated following honing of the reporting methodology.

In 2017, the total number of training hours provided was higher than the previous year particularly with regard to the training hours delivered to Saipem subcontractors.

Employee training hours were slightly down compared to the previous year, in line with the considerable decrease in the workforce that took place over the year.

In quantitative terms, HSE training was the most significant among the training initiatives organised over the year. An average of 16.8 hours of training were provided for employees over 2017 (15.5 considering the total Group perimeter), an improvement if compared to 2016. Out of a total of 1.7 million hours of training, more than 1.1 million were provided to subcontractors.

On average, each employee attended 24 hours of training (21.9 at Group level), an improvement if compared to the 21.8 hours (20.5 at Group level) delivered in 2016.

## Industrial relations

The global context in which Saipem operates, characterised by the management of diversity means that the management of industrial relations requires the utmost care and attention. Over the years Saipem has developed an industrial relations model aimed at ensuring the harmonisation and optimal management of relations with trade unions, employers' associations, institutions and public bodies in line with company policies. Whenever a major organisational change is introduced, it is common practice for the Saipem Group to communicate the development to the trade union representatives. In Italy, due to a specific provision in the collective bargaining agreement, meetings with the unions are regularly convened to illustrate and explain any changes.

		2015		2016		2017	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Employees covered by collective bargaining agreements	(%)	59	60	58	60	49	62
Strike hours	(No.)	35,018	33,568	65,196	55,961	1,143	1,143

Out of over 22,000 employees (more than 29,000 if we consider the total Group perimeter monitored (the total includes full-time Italian employees, French employees irrespective of the country they work in and local employees for all the other countries), 13,694 workers (14,693 at Group level) are covered by collective bargaining agreements. The downward trend for the total Group perimeter can be attributed to the fact that a growing proportion of Saipem personnel

works in countries where there are no provisions for these types of agreements. At the same time, there has been a reduction in personnel in areas where these types of agreements are widespread (Mexico, Brazil, Indonesia and Canada). With regard to the commitment to strengthen the dialogue with the social partner, an agreement was signed in July 2017 to establish the **European Works Council (EWC)**, composed of 22 delegates

representing Group companies operating in the European Economic Area.

The procedures for designating the national delegates were thus completed in anticipation of the first meeting of the EWC to be organised in the first months of 2018.

Over 2017 **International Industrial Relations** were characterised by the renewal of a set of collective agreements in different operating entities. New collective agreements in joint ventures in Angola were signed in the first half of the year, with the introduction, among other things, of a health care system for employees and their families.

Collective agreements were also renewed for personnel employed by Saipem Services Mexico and at the Karimun yard in Indonesia and for the drilling personnel employed in Peru. Furthermore, the renewal of the collective agreement for the workers employed by Ersai (Kazakhstan) is consistent with the amendment of labour legislation enacted in the meantime in the country. In France, the Regional Department of Enterprise, Competition, Consumer Affairs, Labour and Employment (DIRECCTE) approved the contents of the Plan de Sauvegarde de l'Emploi (PSE) in December, whose procedures were launched by Saipem in May. Finally, consultations were initiated with trade union organisations in Norway for the recourse to social security buffers in order to manage staff turnover from the offshore drilling rig Scarabeo 5 to Scarabeo 8.

In 2017, a common understanding was reached for the renewal of the 2016-2018 Energy and Oil National Collective Labour Agreement in **Italy**. Furthermore, the Company kept the trade unions constantly informed of the ongoing reorganisation process, even through a series of meetings, to present the rationale behind the new organisational model and the size of each of the 5 divisions.

For the Onshore Drilling division, the ordinary lay-off scheme was completed in September, which involved around 50 employees as of September 2016. Therefore, targeted training courses have been launched for the workers concerned.

Several meetings have taken place between the Company and regional and local union representatives regarding yard workloads at the Arbatax fabrication yard.

Finally, in the maritime sector, the renewal of the supplemental industry enterprise agreement was signed with the trade unions. In 2017, there was a single strike event in Nigeria, due to the conclusion of a project and the resulting unemployment of personnel.

### Diversity and equal opportunities

Saipem is committed to creating a work environment in which diversity and personal

and cultural views are considered to be resources and sources of mutual enrichment, as well as key factors for business sustainability. This commitment is an essential point of the 'Our people' Policy.

As set out in the Code of Ethics, in full compliance with the legal and contractual regulations on the subject, **Saipem is committed to offering equal opportunities at work to all its workers**, acting so that everyone may enjoy equal opportunities and compensation, based solely on the criteria of merit and competence without discrimination of any kind. The functions responsible for managing people must:

- adopt, in any situation, criteria of merit and competence (and anyhow strictly professional) in all decisions concerning human resources;
- always select, hire, train, compensate and manage human resources without discrimination of any kind;
- create a working environment where personal features or beliefs do not give rise to discrimination and which ensures the serenity of all Saipem people.

More specifically, the Group's **compensation policies** are based on the principle of fairness, merit and local approach. In fact, Saipem defines its policies in full accordance with the skills and performance assessment and identifies compensation strategies through a local approach that intercepts the specific nature of the labour market and the local labour law context.

Saipem is also committed to promoting programmes to guarantee **generational turnover**, in order to ensure business continuity and critical skills and promote change. On the one hand, these initiatives provide development opportunities for young people and, on the other hand, enhance senior resources and their know-how. Generational turnover is achieved at Saipem by supporting the motivation of the most expert resources to foster tutoring and the transfer of knowledge, as well as creating the organisational and managerial conditions to allow young people to obtain full empowerment.

Saipem guarantees its employees, depending on the specific local circumstances, different types of benefit allocation methods that may concern: forms of complementary pension schemes; supplementary health insurance coverage; mobility support services and policies; welfare initiatives and policies to support families; catering (company canteen, lunch tickets); and training courses aimed at ensuring more effective integration within the reference socio-cultural context. As of today these benefits, where applicable, based on the country/company/local legislation in force, are applied to the entire specific reference population regardless of the type of contract (temporary/permanent), except for those

particular services where the time scale of performance delivery may not be compatible with the duration of the contract.

The **protection of specific categories of workers** is safeguarded through the application of local regulations and strengthened by specific company policies, which highlight the importance of this issue. The goal is to ensure equal opportunities for all types of workers in an effort to deter the

onset of prejudice, harassment and discrimination of any kind (e.g. related to sexual orientation, colour, nationality, ethnicity, culture, religion, age and disability) fully respecting human rights. Specific regulations in different operating companies also provide for the obligation of a minimum inclusion of disabled or young personnel, or compliance with a certain proportion between local and expatriate personnel.

(No.)	2015		2016		2017	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
<b>Women in the workforce</b>						
Women employed, by geographical area:	5,257	5,012	4,251	4,010	3,790	3,560
Americas	985	985	495	485	348	348
CIS	546	538	478	462	461	442
Europe	2,441	2,345	2,198	2,100	2,101	1,983
Middle East	168	166	129	123	120	115
North Africa	45	45	30	30	33	33
West Africa and the rest of Africa	479	340	250	249	312	224
Far East	593	593	560	560	415	415
<b>Women in leadership</b>						
Women Senior Managers	22	22	23	23	23	23
Women Managers	704	694	600	591	612	606
<b>Age ranges</b>						
Employees under 30 years	7,595	4,257	5,809	4,225	4,330	3,724
of which women	1,097	653	735	540	494	427
Employees between 30 and 50 years	31,436	29,754	28,418	26,353	25,673	22,919
of which women	3,529	3,615	2,961	2,876	2,744	2,601
Employees over 50 years	7,315	8,397	6,078	6,281	5,915	5,415
of which women	631	744	555	594	552	532
<b>Multiculturalism</b>						
Number of nationalities represented in the employee population	128	126	120	115	115	115

As regards **gender diversity**, the percentage of women holding managerial positions with respect to the total number of women increased from 15% in 2016 to 18% in 2017. Saipem is equipped with precise guidelines to standardise compensation policies and reduce the pay gap between men and women in all the local realities where it operates. Saipem supports the **work/family balance** of its personnel through company regulations and/or local policies, which guarantee parental leave. These leaves differ only in time and method of abstaining from work. The growth in the average number of days of leave taken should be highlighted even if there was an overall reduction in the number of beneficiaries. In 2017, Saipem had 639 employees (695 if we refer to the total Group perimeter), 422 men (456 considering the total Group perimeter) and 217 women (239 considering the total Group perimeter), who made use of parental leave for a total of more than 36,000 days (42,000 referring to the total Group perimeter). At the same time, the return to work from parental leave by 538 employees (588 at Group level) was noted in the same

period, 420 men (454 at Group total level) and 118 women (134 at total Group level), with an 84% return rate from parental leave (85% at total Group level), marking a slight increase against the previous year.

## Health

As described in the 'The integrity in our operations' Policy, **Saipem considers the safeguard of health a fundamental requisite and promotes the psychophysical well-being of its people.** This is a fundamental condition of the modus operandi of Saipem which is committed to being a leader in safeguarding health, as well as safety and the environment (further details can be found in the HSE Policy of Saipem SpA). The Company pursues this commitment in compliance with the provisions on the protection of privacy and national and international laws on the safeguard of health and the prevention of diseases. Its implementation implies that the programme, for each work site, concentrates

mainly on preventive measures and considers all the activities whose performance could represent a health risk.

Activities implemented include, for example, an assessment of the health risks, check-ups for the issue of fitness certificates, vaccinations and chemoprophylaxis, health information, monitoring of the hygiene/sanitary conditions, programmes for the prevention of diseases and activities to promote health and physical activity. Saipem's operating activities require the movement of a considerable number of people, even to remote locations and contexts, sometimes unknown to the workers. For this reason the Company ensures workers the best possible medical assistance wherever they work, organises regular specific medical examinations and consequently prepares medical fitness certificates, as well as delivers training programmes to assigned personnel before undertaking any travel or being assigned abroad. This is to prevent risks of contracting diseases due to the effect of the climate, environmental and psychosocial factors linked to the place of destination. The Company is equipped with structured processes and a chain of well-defined responsibilities to promptly manage any medical emergency whatsoever.

Saipem has developed a continually evolving health management system, which is adapted to the work environments, integrates the most recent epidemiological studies and is designed to ensure the best health monitoring and medical services.

This system observes the principles recognised at international level and by local laws, the WHO (World Health Organization) Beijing Declaration, 'Global Strategy on Occupational Health for All' (1994), European legislation and directive 2000/54/EC on the

protection of workers from risks related to exposure to biological agents at work, its application in Italy through Legislative Decree No. 81/2008 as amended (called the 'Law on Occupational Health and Safety').

This approach ensures effectiveness, flexibility and adequate bases for the development of a long-term health culture also in the countries where the Company operates.

The management system requires that the risks linked to the health of personnel are identified and assessed (taking into consideration the frequency and potential impact), after which suitable preventive and mitigation measures are identified and implemented. Risk monitoring is periodically performed.

The general principles for the safeguard of health are based on the analysis of the activities carried out in the work environment and take into consideration the risks that those activities have on both the people involved in the operations in different capacities and the local community. The analyses carried out are specific for each duty and destination. They include the identification of the activities and operating conditions in relation to normal, abnormal and emergency running conditions; the analysis of the possible contact routes for the risk agents and their combined action and a clear association of the hazards to the duties in relation to the specific nature of the identified activities. The results of the analyses allow the personnel to be suitably equipped with proper preventive measures and duly monitored. The occupational disease rate is calculated as the number of occupational diseases reported divided by the hours worked by Saipem personnel, all multiplied by a million.

		2015		2016		2017	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Occupational diseases	(No.)	26	26	9	9	5	4
Occupational disease rate	(ratio)	0.23	0.25	0.08	0.08	0.05	0.04

## Safety

The safety of all Saipem personnel is a priority and strategic objective of the Company.

This commitment is also clearly described in the 'HSE' Policy of Saipem SpA and 'The integrity in our operations' Policy.

The safety of people is constantly monitored and guaranteed in the management of its activities through an integrated health, safety and environment management system, which meets the international standards and current legislation. **In 2017, the OHSAS 18001 and ISO 14001 certifications of Saipem SpA was extended to the most significant business entities** in the Group, guaranteeing

a uniform and systematic approach in the management of the processes.

Saipem defines a safety objectives plan every year at corporate, division and operating company level, which is approved by the CEO, division manager and managing directors respectively.

The incentive plans for the senior managers for the areas under their responsibility is linked to the achievement of these objectives. These objectives include the:

- identification of the hazards and periodic assessment of the risks associated with the safety of personnel, vendors and other subjects involved in Company activities, as well as risks for the company assets;

- assessment of the risks caused by the interference between the activities contracted to vendors operating on Saipem's vessels or at their sites;
- training of personnel. The HSE training process can be broken down into several phases: updating the HSE training protocol (which identifies the training needs based on professional roles), definition and standardisation of the courses on a dedicated platform, provision of the courses, monitoring and reporting on the training activities;
- adoption of adequate preventive and protective measures to guarantee the integrity and efficiency of the assets and the health and safety of people;
- follow-up and control activities on the effectiveness of the prevention and the protective measures implemented;
- reporting, registration, analysis and investigation activities for accidents and near misses;
- consolidation and analysis of safety performance.

The Company carries out HSE internal audits on: HSE management system, compliance with the HSE legislative provisions and audits on the processes regarding safety.

These audits (over 100 in 2017) involved operating companies, operational sites (including the fleet) and subcontractors.

The Company has launched several awareness campaigns over the years with the purpose of spreading a deeper and more entrenched safety culture. The **Leadership in Health and Safety (LiHS) programme**

stands out among these. This was launched in 2007 with the purpose of promoting the development of leadership abilities and cultural change regarding safety. The purpose of the programme is to strengthen Saipem's health and safety culture, disseminating safe behaviours throughout the Company and focusing on the development of leadership at all levels. Saipem created the Leadership in Health and Safety (LHS) Foundation in 2010 from the internal success of this programme. The Foundation supports companies and organisations in promoting a safety culture by implementing the LiHS programme.

The Foundation is active in the non-profit sector and operates by organising training workshops in schools, shows and cultural events to achieve zero accidents, triggering virtuous behaviour in terms of safety.

The Foundation also sponsors research in collaboration with some of the main Italian universities to enrich and enhance the culture of health and safety.

At Saipem, the health and safety culture of workers is guaranteed and supported by the external regulatory environment, mainly characterised by laws and agreements at national and company level, and by an internal environment characterised by specific policies on health and safety that set particularly stringent criteria compared to the local contexts, which today still have regulatory systems in the process of development. Moreover, not all countries in which Saipem operates have trade unions at both national and local levels. Where specific agreements are in place, they can be broken down into three main lines:

- the establishment of workers' representatives for health and safety (composition and number);
- specific training for safety officers (those appointed by Saipem and workers' representatives) and the distribution of information on safety issues to all employees with particular reference to health and safety at work courses, firefighting courses, first aid courses and mandatory specialist courses for 'Special Operations' (Onshore-Offshore);
- regular meetings between the company and workers' representatives.

In Italy, workplace health, safety and the environment issues are governed by specific contractual provisions and the National Collective Labour Agreement. In particular, the collective agreement provides for the appointment of corporate representatives of the workers for their protection in the areas of health, safety and environment (RLSA).

The appointment is made by election and the number of representatives is established by law and the collective bargaining agreement. There are a total of 19 RLSA at the Saipem Italian offices. A specific trade union agreement signed by Saipem and the trade unions defines the competences of the RLSA and their full authority to carry out their activities even over workers assigned temporarily to activities at yards and work-sites other than those of origin.

It should also be noted the presence of institutes in foreign countries, where participation is shared between management and the workforce for the management of initiatives and programmes regarding health and safety in accordance with the reference regulations in different national situations.

Among these are the Saipem Group entities operating in Algeria, Angola, Bolivia, Brazil, Canada, Colombia, Congo, Croatia, Ecuador, France, Indonesia, Malaysia, Mexico, Norway, Peru, United Kingdom, Romania and Venezuela.

		2015		2016		2017	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Man-hours worked	(millions of hours)	234.4	213.2	258.6	222.5	281.9	220.8
Fatal accident	(No.)	2	2	1	1	3	3
Lost Time Injuries (LTI)	(No.)	70	61	51	40	37	34
Man-hours worked	(No.)	4,439	4,065	3,106	1,705	1,857	1,380
Severity Rate	(ratio)	0.02	0.02	0.01	0.01	0.01	0.01
Total Recordable Incident (TRI)	(No.)	253	215	201	139	144	113
Absenteeism rate	(%)	4.6	4.8	4.9	4.2	4.1	4.7
Fatal Accident Frequency Rate (FTLFR)	(ratio)	0.85	0.94	0.38	0.45	1.06	1.36
LTI Frequency Rate (LTIFR)	(ratio)	0.31	0.30	0.20	0.18	0.14	0.17
TRI Frequency Rate (TRIFR)	(ratio)	1.08	1.01	0.78	0.62	0.51	0.51

All the safety statistics also include performances by subcontractors, with the exception of the absenteeism rate. Unfortunately, there were 3 fatal accidents in 2017 involving subcontractor personnel in Brazil, Saudi Arabia and Singapore due to the following causes: an explosion during depressurisation of a subsea system, a fall from height while a scaffold was being dismantled and a crane boom striking an individual during its installation. In-depth investigations were conducted to identify the causes of these accidents and the appropriate action to reduce the possibility of such accidents from being repeated: some of the most significant actions concern improving or reinforcing the competency of key resources in areas such as 'working at height' training and simultaneous operations. Saipem invests significant resources to train its personnel on HSE topics through campaigns and specific programmes, in order to increase the awareness of the risk of its own activities, and in strengthening its own HSE management system. It is Saipem's duty, as a responsible employer, to do everything possible to prevent accidents at work. The results of Saipem's continuous efforts are documented by the trends in the main indicators (TRI - Total Recordable Incidents and LTI Lost Time Injury). The TRI Frequency Rate (TRIFR) for 2017 is 0.51, data that confirms the improvement trend compared to 0.62 for 2016 (0.78 if we consider the total Group perimeter) and 1.01 for 2015 (1.08 with the total Group perimeter). Confirming the solidity of the system and its homogenous implementation, the results of the activities carried out by a third-party certification company (in order to obtain extensions for the OHSAS 18001 and ISO 14001 certifications), in line with the results of the internal audits carried out at corporate level, have shown a decrease in non-conformities and an increase in its areas of strength.

The total absenteeism hours for Saipem personnel in 2017 were about 1.8 million, with an equivalent absenteeism rate of 4.7% (4.1% if all Saipem Group companies were

considered), a value that is overall satisfactory. The total absenteeism hours are mainly determined by absences from illness, paid and unpaid leave provided for by local regulations. The absenteeism rate is in line with the previous year's rate. The total absenteeism hours have also declined in considering the overall decrease in the workforce.

An explanation of the methodology for calculating the main indicators is shown below:

- the man-hours worked are the total number of hours worked by employees of Saipem and contractors working at the operating sites;
- lost days of work translate into the total number of calendar days in which the injured person was not able to do their job as a result of an LTI. The calculation for the lost days starts from the second day after an accident until the day when the person is capable of returning to work. The calculation does not include fatal accidents;
- FTLFR, LTIFR and TRIFR are calculated as the number of fatal accidents, LTI and TRI, divided by the hours worked, all multiplied by one million. These ratios include injuries both to employees of the Company and of contractors;
- the Severity Rate is calculated as days of work lost divided by the hours worked, multiplied by one thousand;
- the employee absenteeism rate is calculated as the ratio between the total hours of absence and the theoretical total annual hours to be worked. The theoretical annual hours of work are calculated proportionately to the total work force at December 31. The total hours of absence do not include parental leave and estimated holiday hours.

### Asset integrity

Saipem strongly pursues the effective implementation of its asset integrity management system as an outcome of good design, construction and operating practices

adopting the integrated management of barriers to reduce the risks associated with Major Accident Events (MAE). Asset integrity refers to the prevention and control of the events with low frequency and high/severe consequences on people, the environment, assets or project performance. A dedicated team has been set up to develop an asset integrity management system model in line with the best Industrial practices. The asset integrity model follows a typical deming cycle: planning, operations, performance monitoring and continual improvement. Saipem undertakes to prevent risks to improve the integrity of its operations. For this purpose, it adopts a proactive approach in the mitigation of risks as an integral part of its management and business activities. Further information can be found in the 'Safe operations, asset integrity and process safety' section of 'Saipem Sustainability 2017'.

## Fighting corruption

Saipem has always conducted its business with loyalty, fairness, transparency, integrity and in full observance of laws and regulations. In this context, corruption is an intolerable impediment to the efficiency of business and fair competition.

Amongst its various initiatives, Saipem has implemented the '**Anti-corruption Compliance Programme**', a detailed system of rules and controls aimed at preventing corruption in line with best international practices and the principle of '**zero tolerance**' expressed in the Code of Ethics.

In particular, the Saipem Code of Ethics (last updated on January 15, 2018) establishes that 'bribes, illegitimate favours, collusion, requests for personal or career benefits for oneself or others, either directly or through third parties, are prohibited without any exception'.

The Saipem 'Anti-Corruption Compliance Programme' is characterised by its dynamism and constant attention to the evolving national and international regulatory framework and best practices.

Over the years, and in view of continuous improvement, the 'Anti-Corruption

Compliance Programme' has been constantly updated in line with the applicable provisions in force (including, inter alia, the United Nations Convention Against Corruption, the Organisation for Economic Cooperation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, Italian Legislative Decree No. 231 of June 8, 2001, the US Foreign Corrupt Practices Act and the UK Bribery Act).

More specifically, the Board of Directors of Saipem SpA approved the 'Anti-Corruption Management System Guideline' (Anti-Corruption MSG) on April 23, 2012. This repealed and replaced the previous Anti-Corruption Compliance Guidelines in order to optimise the compliance system in force. All the detailed anti-corruption procedures for specific risk areas were then updated (inter alia, the procedures for joint venture agreements, sponsorships, gifts, non-profit initiatives, vendors and consultants, relations with public administration and merger & acquisition transactions). Saipem then issued the latest update of the 'Anti-Corruption Management System Guideline' in 2015. This represented an improvement in the regulatory context of the 'Anti-Corruption Compliance Programme' and the Saipem Corporate Governance systems regarding anti-corruption.

The above-mentioned MSG was examined and approved by the Board of Directors of Saipem SpA and it is mandatory for Saipem SpA and all its subsidiaries to adopt and implement it.

All Saipem people are responsible for complying with the anti-corruption regulations: for this reason all the documents are accessible through the website and the Company intranet portal. In this context, managers hold a role of primary importance and they are called upon to promote compliance with anti-corruption procedures by their colleagues.

Aware that the primary element for developing an effective strategy to combat the phenomenon of corruption lies in developing a thorough understanding of the tools for its prevention, Saipem regards these training initiatives and awareness activities considerably important.

(No.)	2015		2016		2017	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Employees trained on issues of compliance, governance, ethics and anti-corruption	-	-	2,813	2,802	1,962	1,954
Hours (*) of training on issues of compliance, governance, ethics and anti-corruption	4,264	3,884	6,713	6,664	6,201	6,178

(\*) The number of training hours has been calculated by multiplying the average number of hours by the average duration of the courses.

Moreover, the Saipem Internal Audit function shall independently review and assess the

internal control system in order to verify compliance with the requirements of the

Anti-Corruption MSG, on the basis of its own annual audit programme approved by the Board of Directors of Saipem SpA. Any violation, suspected or known, of anti-corruption laws or anti-corruption procedures must be immediately reported through the channels indicated in the 'Whistleblowing reports received by Saipem and by its subsidiaries' procedure, which is available on the Company website and the intranet portal. Disciplinary measures are provided for Saipem people violating the anti-corruption regulations and omitting to report violations they are aware of. Saipem expects all of its Business Partners to comply with all applicable laws, including Anti-Corruption laws, in connection with Saipem's business, and to undertake to comply with the reference principles of the Anti-Corruption MSG.

## Human rights

Saipem is committed to protecting and promoting human and labour rights when conducting its business, taking into consideration both the work standards recognised at international level and the local legislation in the countries where Group companies operate. This commitment is part of Saipem's modus operandi and is also made clear in the 'Our People' Policy. With reference to the management of relations with personnel worldwide, **Saipem adheres to the principles of the UN Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises.** Moreover, Saipem's CEO is formally committed to promoting and abiding by the **principles set forth in the UN Global Compact**, to which Saipem adheres, including principles 1, 2, 3, 4, 5 and 6 (regarding labour rights and the promotion of the socio-economic development in the territories). In so doing, due attention is given to the fundamental **International Labour Organisation (ILO) conventions** encompassing the protection against forced and child labour, the promotion of non-discrimination on employment and occupation, as well as freedom of association and collective bargaining. Especially with regard to the latter, Saipem has a sound record of relations with trade union organisations in a variety of geographic locations and covering several segments of its business. Further details can be found in the 'Industrial relations' section. Saipem promotes and encourages a constant open dialogue between employer and employees so that the interests of the parties can be best realised in consideration of the fact that a regular and effective communication flow between the two parties

appreciably reduces the probability of misunderstandings and conflict arising at the workplace. Therefore, Saipem takes steps to ensure that there is a widespread and shared system between all the workers in Italy and around the world which permits an easy and effective resolution of any conflicts linked to issues that have implications of an administrative nature. It is for this purpose that a procedural tool has been drawn up. It defines the methods for resolving conflicts, the schedules, the people involved in the process and knowledge of the outcomes for the workers. Saipem's attention to labour rights extends also to offshore personnel with full abidance to the principles and the rights recognised to seafarers promoted under the **ILO Maritime Labour Convention of 2006 (MLC 2006)**. Seafarers also have the right to submit a complaint according to a structured process if a violation of their rights arises. In order to guarantee that each person is aware of their rights, all people working on offshore vessels receive a copy of the related procedure and all the forms necessary for the complaint, together with a copy of their employment agreement. The captain and/or the Company examines any complaint, and any instance of harassment is managed in compliance with the Company's disciplinary procedures. Finally, based on commitments made by the Group in the context of the Global Compact, Saipem has completed a human rights training and awareness programme for HR personnel operating in 20 countries. At the same time, a similar initiative was targeted at subcontractors to seek a shared and more effective approach to promoting and respecting human rights.

## Security practices

In the management of security activities, Saipem gives utmost importance to respecting human rights. Saipem is committed to adopting preventive measures aimed at minimising the need for response by public/private security forces in the case of any threats to the safety of its people and the integrity of its assets. The Company manages relations with local security forces in order to ensure a shared commitment to human rights, as well as the adoption of rules of engagement that limit the use of force. Before signing a contract, vendors of security goods and services are subjected to a due diligence to verify that there are no counter-indications connected with the violation of human rights. Saipem has introduced **clauses regarding the respect for human rights** in its contracts with these vendors since 2010, and failure to

observe them leads to the withdrawal of the Company from the contract. As of today, the contractual clauses on human rights have been included in the 'General terms and conditions' of contracts.

For new projects in which Saipem is responsible for security, the Company carries out a **Security Risk Assessment** on the country in question before initiating a tender process. If it decides to go ahead with issuing a call for bids, Saipem prepares the **Project Security Execution Plan** in which the security risk connected with the operating activities and the context is analysed, including human rights violation issues. The actions required to manage and reduce these to a minimum are decided based on the risks identified.

In November 2017, a session (the fourth) of the **HOPE programme** (Human OPERational Environment, training programme on human rights and work practices) targeted at project personnel in Angola was delivered.

Further information can be found in the 'Human and labour rights' section of 'Saipem Sustainability 2017'.

### Reporting suspected violations

A fundamental part of Saipem's structured system for managing stakeholder complaints is the reporting management process ('**whistleblowing**'), governed by a special Corporate Standard made available to all employees (through various means, among which the intranet and company notice boards) and external stakeholders (published on the Company's website).

The term 'report' refers to any information regarding possible violations, behaviour and practices not in line with the Code of Ethics and/or which may cause damage or injury to Saipem SpA (even if only to its reputation) or any of its subsidiaries, by employees, members of company bodies, Saipem SpA and its subsidiaries' audit companies and third parties in a business relationship with these companies, in one or more of the following areas: internal control system, accounting, internal controls on accounts, audits, frauds, administrative responsibilities under Legislative Decree No. 231/2001, and others (such as violations of the Code of Ethics, mobbing, security, and so on). Saipem has prepared various channels of communication in order to facilitate the sending of reports, including, but not necessarily limited to, regular post, fax numbers, yellow boxes, e-mail, and communication tools on the intranet/internet sites of Saipem SpA and its subsidiaries. The Internal Audit function ensures that all appropriate controls are in place for any facts that have been reported, through one or more of the following activities, guaranteeing that: (i) these are carried out in the shortest time possible and respecting the completeness and accuracy of the investigation; (ii) the utmost confidentiality with methods suitable for protecting the person reporting. The investigation comprises the following stages: (a) preliminary check; (b) assessment; (c) audit; (d) monitoring of corrective actions. The Internal Audit prepares a quarterly report on reports received that, following examination by the Saipem Board of Statutory Auditors, is transmitted to the relevant people for suitable assessment.

(No.)	2015	2016 <sup>(*)</sup>	2017
<b>Number of files</b>			
Total, of which:	78	125	118
- founded or partially founded	20	28	20
- unfounded	58	97	67
- open	-	4	31

(\*) The count for closed files includes 4 closed files concerning the system of internal controls and risk management and re-opened and closed also for other matters concerned.

Details of some file categories are provided below:

(No.)	2015	2016	2017
<b>Files on cases of discrimination</b>			
Total, of which:	11	19	12
- founded or partially founded	2	2	2
- unfounded	9	17	4
- open	-	-	6
<b>Files on workers' rights</b>			
Total, of which:	15	30	26
- founded or partially founded	5	6	3
- unfounded	10	23	9
- open	-	1	14
<b>Files on violations of the rights of local communities</b>			
Total, of which:	2	2	3
- founded or partially founded	-	-	-
- unfounded	2	2	2
- open	-	-	1

The data is updated as of December 31, 2017.

The following files were opened in 2017: 12 files on issues of discrimination, of which 6 are still open and 6 closed; 26 files on issues of worker's rights, of which 14 still open and the remaining 12 closed; 3 files on issues of local community, of which 1 still open and 2 closed. All 41 files were transmitted to the competent company bodies (Board of Statutory Auditors of Saipem SpA, Compliance Committee of Saipem SpA and the Compliance Committees of the companies involved in the reports). With regard to the issues of **discrimination**, with reference to the closed cases, the competent company bodies decided to close 3 on the basis of investigations carried out, considering that there were no violations of the Code of Ethics with reference to the facts reported. A violation was confirmed in 2 cases and in 1 case corrective actions were identified even though there were no violations. The corrective actions consisted of the following: the dismissal of an employee, the issue of a warning letter and sensitivity training to improve employee behaviour. It should also be noted that 7 discrimination cases were closed in 2017; they were still open at the time of the last reporting. Of the 7 files closed, 6 were unfounded and 1 was partially founded. With regard to this last case, corrective actions were carried out on the perpetrators of the behaviour, which consisted of a verbal warning, and planning of a specific training session on leadership development. With regard to the issues of **workers' rights**, with reference to the closed cases, in 7 cases the competent company bodies decided upon closure deeming that there were no cases of violation of the Code of Ethics with

reference to the facts reported, whilst violation was confirmed in 1 case and 2 cases were partially confirmed and in 2 cases, though without violation, corrective actions were taken. The actions were the following: the dismissal of an employee, the monitoring of the future behaviour of another employee by management, the implementation of an awareness course on the subject of sexual harassment and interviews with employees on the identified issues. It should also be noted that 9 workers' rights cases were closed in 2017; they were still open at the time of the last reporting. 6 files were unfounded, 2 were founded and in 1 case, though there was no violation, corrective action was highlighted consisting of the dismissal of the perpetrator of the behaviour, carrying out sensitivity training on the topic of sexual harassment, creating work groups to identify improvement points with reference to the management workloads and interpersonal relations and the planning of specific meetings in order to understand and improve the relationship dynamics in the workplace.

As regards issues on the **relations with local communities**, with reference to the two closed cases, the competent company bodies decided to dismiss them on the basis of the investigations carried out that deemed that there was no violation of the Code of Ethics with reference to the facts reported. No corrective actions were implemented. 1 case dealing with issues regarding the local communities from 2016 was closed in 2017. This file was unfounded and no corrective actions were identified with regard to this outcome.

## Reporting boundary

The 'Consolidated Non-Financial Statements' contains the information and performance indicators for **Saipem SpA** and the **fully consolidated subsidiaries** in the 'Annual Report', as prescribed by Italian Legislative Decree No. 254/2016.

Any changes in the reporting boundary from the previous year are described in the 'Principles of consolidation' section of the 'Annual Report'.

In some contexts, described below, there are deviations on the consolidation boundary previously defined, in any case guaranteeing the criterion of significant impact: i.e. the information necessary to ensure understanding of the Group's activities, its

operations, its results and the impact produced by it are always and in any case ensured.

In fact, for some material issues, the impact of Saipem's activities goes beyond the boundary of the organisation (see table below).

In line with international reporting best practices and to guarantee comparability of the performances against the information published in other company documents, the indicators are also reported with a more extended reporting boundary than that required by Italian Legislative Decree No. 254/2016, including non-consolidated companies and joint operations, joint ventures or associates, over which Saipem controls operations<sup>1</sup>. These indicators are marked by the wording 'Group total'.

Reporting area	Differences in the consolidation boundary
Safety	It also includes the data for subcontractors operating on Saipem and partner sites in activities where Saipem is responsible for HSE management.
Environment	It also includes the data for subcontractors operating on Saipem and partner sites in activities where Saipem is responsible for HSE management. Furthermore, the significance limits for the inclusion of operating sites in the boundary (no. of people on site or, in the case of offices not belonging to Saipem, the type of lease contract) are also included.
Relations with local stakeholders	The companies that do not have significant operating activities are excluded.

The 'External boundary' column specifies the categories of stakeholders impacted by Saipem's operations, for every material topic.

Any limitations affecting the boundary of every material theme are also shown in the 'Limitations' column.

Material topic	External boundary	Limitations
People safety	Vendors and subcontractors	Partial, for vendors
Safe operations, asset integrity and process safety	Vendors and subcontractors	Partial, for vendors
Anti-corruption and ethical business practices	Business partners, vendors and subcontractors	-
Human and labour rights	-	-
Technology and operational innovation	-	-
Training and development	Subcontractors (HSE training)	-
Spill prevention and response	Vendors and subcontractors	Vendors
Ethical supply chain	Vendors and subcontractors	Partial, for vendors
Water management and pollution	Vendors and subcontractors	Vendors
Health and well-being	Some local communities	-
Energy efficiency	Vendors and subcontractors	Vendors

## Limited assurance

Reporting is subject to limited assurance by an independent company (hereinafter 'the auditor'), the auditor of the annual report. The auditor certifies, in the context of the statutory audit, that the 'Consolidated Non-Financial Statements' have been approved by the Board of Directors. The auditor also expresses, with an appropriate report, the certification that,

based on the work carried out, no elements have come to its attention to make it think that the 'Consolidated Non-Financial Statements' have not been prepared, in all significant aspects, in compliance with the provisions of Articles 3 and 4 of Italian Legislative Decree No. 254/2016 and the GRI G4 Guidelines. The Saipem SpA Board of Directors approved the 'Consolidated Non-Financial Statements' on March 5, 2018.

(1) The 'Group total' perimeter includes, in relation to the environmental, health and safety aspects (including HSE training), the following companies: SAGIO - Companhia Angolana de Gestão de Instalação Offshore Ltda, Petromar Lda, STAR Co Ltd. The perimeter concerning personnel and human rights has been extended to include the following companies: Petromar Lda, STAR Co Ltd, Charville Lda, Saipar Drilling Co BV, TSIGI Mühendislik İnşaat Ltd Şirketi, ASG Scarl, CEPAV (Consorzio Eni per l'Alta Velocità) Due, KWANDA Suporte Logístico Lda. Regarding the aspects related to anti-corruption, the extension of the perimeter concerns the following companies: Petromar Lda, TSIGI Mühendislik İnşaat Ltd Şirketi, Saipem Taqa Al Rushaid Fabricators Co Ltd.

## GRI Content Index

### 'In accordance' - Core option

#### Legend of the documents

**DNF17:** Consolidated Non-Financial Statements

**RF17:** Annual Report 2017

**CG17:** Corporate Governance and Shareholding Structure Report 2017

<b>GENERAL STANDARD DISCLOSURES</b>	
<b>General Standard Disclosures</b>	<b>Page No. or link</b>
<b>Strategy and analysis</b>	
G4-1	'Letter to the shareholders', pages 2-3 (RF17).
<b>Organisation profile</b>	
G4-3	Cover (RF17).
G4-4	'Directors' Report', pages 20-35 (RF17).
G4-5	Inside back cover (RF17).
G4-6	Inside cover (RF17).
G4-7	Table 'Shareholding structure', page 58 (CG17).
G4-8	'Directors' Report', pages 20-35 (RF17).
G4-9	'Saipem people', pages 82-83 (DNF17); 'Letter to the shareholders', pages 2-3 (RF17); 'Financial and economic results', page 36 (RF17).
G4-10	'Saipem people', pages 82-83 (DNF17).
G4-11	'Saipem people', pages 84-85 (DNF17).
G4-12	'Social aspects', pages 81-82 (DNF17).
G4-13	'Company management and organisation model', pages 74-75 (DNF17); 'Social aspects', pages 81-82 (DNF17); 'Shareholder structure of the Saipem Group', pages 5-7 (RF17); 'Consolidation principles', pages 109-112 (RF17).
G4-14	'Directors' Report', pages 58-67 (RF17).
G4-15	'Fighting corruption', pages 90-91 (DNF17).
G4-16	Saipem is an active member of 89 business associations at the national and international level. The parent company is a member of 29 associations, among which ANIMP, IADC, IMCA, IPLOCA, UN Global Compact and WEC.
<b>Identification of the material aspects and boundary</b>	
G4-17	'Reporting methodologies, principles and criteria', pages 73-74 (DNF17); 'Reporting boundary', page 94 (DNF17); 'Shareholder structure of the Saipem Group', pages 5-7 (RF17); 'Scope of consolidation at December 31, 2017', pages 130-134 (RF17).
G4-18	
G4-19	
G4-20	
G4-21	
G4-22	
G4-23	
<b>Stakeholder engagement</b>	
G4-24	'Reporting methodologies, principles and criteria', pages 73-74 (DNF17); 'Company management and organisation model', pages 75-76 (DNF17).
G4-25	
G4-26	
G4-27	
<b>Document profile</b>	
G4-28	Cover (RF17).
G4-29	Italian Legislative Decree No. 254/2016 came in effect as of the 2017 reporting year. This document is therefore the first 'Consolidated Non-Financial Statements'. Nevertheless, the Company has been reporting on sustainability performance by publishing specific documents each year since 2006.
G4-30	'Reporting methodologies, principles and criteria', pages 73-74 (DNF17).
G4-31	Inside back cover (RF17).
G4-32	'GRI Content Index', pages 95-97 (DNF17).
G4-33	'Limited assurance', page 94 (DNF17).
<b>Governance</b>	
G4-34	'Board of Directors', pages 16-28 (CG17); 'Board Committees', pages 30-35 (CG17); 'Structure of the Board of Directors and its Committees', page 59 (CG17).
<b>Ethics and integrity</b>	
G4-56	'Company management and organisation model', page 75 (DNF17).

<b>SPECIFIC STANDARD DISCLOSURES</b>		
<b>Specific Standard</b>	<b>Page No. or link</b>	<b>Omission (i)</b>
<b>Economics</b>		
<b>Market presence</b>		
G4-DMA G4-EC6	'Social aspects', page 81 (DNF17).	
<b>Environment</b>		
<b>Energy</b>		
G4-DMA	'Protecting the environment and minimising environmental impacts', page 78 (DNF17).	
G4-EN3	'Protecting the environment and minimising environmental impacts', page 78 (DNF17).	The total energy consumption in 2017 was equivalent to 18,435 TJ. The percentage of electricity consumed by the Group that was produced by renewable sources depends on the energy mix of the different countries.
<b>Water</b>		
G4-DMA	'Protecting the environment and minimising environmental impacts', page 79 (DNF17).	
G4-EN8	'Protecting the environment and minimising environmental impacts', page 79 (DNF17).	
<b>Emissions</b>		
G4-DMA	'Protecting the environment and minimising environmental impacts', page 78 (DNF17).	
G4-EN15	'Protecting the environment and minimising environmental impacts', page 78 (DNF17).	
<b>Effluents and waste</b>		
G4-DMA	'Protecting the environment and minimising environmental impacts', pages 77 -80 (DNF17).	
G4-EN22	'Protecting the environment and minimising environmental impacts', page 79 (DNF17).	The data on water quality (including treatment water) is not available as it was not systematically reported.
G4-EN23	'Protecting the environment and minimising environmental impacts', pages 79-80 (DNF17).	
G4-EN24	'Protecting the environment and minimising environmental impacts', page 77 (DNF17).	
<b>Social</b>		
<b>Work practices</b>		
<b>Employment</b>		
G4-DMA	'Saipem people', pages 82-83, 85-89 (DNF17).	
G4-LA2	'Saipem people', pages 85-89 (DNF17).	
<b>Workplace Health and Safety</b>		
G4-DMA	'Saipem people', pages 87-89 (DNF17).	
G4-LA6	'Saipem people', pages 87-89 (DNF17).	Project data, and thus geographical area data, is monitored monthly. Considering that Saipem works in more than 60 countries, it is considered more significant to provide aggregate data. Saipem does not monitor safety data by gender. The data on employees and subcontractors operating at the Group sites are shown in aggregate form so as to provide an overview of safety management.
<b>Training and education</b>		
G4-DMA	'Saipem people', pages 83-84 (DNF17).	
G4-LA9	'Saipem people', pages 83-84 (DNF17).	Training hours are not shown by gender and category because the IT systems used for reporting do not allow for differentiating the data at this time.
<b>Diversity and equal opportunity</b>		
G4-DMA	'Saipem people', pages 85-86 (DNF17).	
G4-LA12	'Saipem people', pages 85-86 (DNF17).	The Board of Directors is composed of 9 members, of which 3 women. The age of the directors is not considered material. The data for the breakdown of the workforce by gender and age is expressed in an absolute value and not as a percentage.

<b>SPECIFIC STANDARD DISCLOSURES</b>		
<b>Specific Standard</b>	<b>Page No. or link</b>	<b>Omission (i)</b>
<b>Assessment of vendors on work practices</b>		
G4-DMA	'Social aspects', pages 81-82 (DNF17).	The data on vendors is collected by means of a qualification questionnaire and then analysed.
G4-LA14	'Social aspects', pages 81-82 (DNF17).	New vendors who are assessed on labour rights are reported in absolute value because the percentage does not provide significant information to quantify the verification effort carried out by Saipem.
<b>Reports on workers' rights</b>		
G4-DMA	'Respect for human rights', pages 91-93 (DNF17).	
G4-LA16	'Respect for human rights', pages 92-93 (DNF17).	
<b>Human rights</b>		
<b>Non-discrimination</b>		
G4-DMA	'Saipem people', pages 85-86 (DNF17); 'Respect for human rights', pages 91-93 (DNF17).	
G4-HR3	'Respect for human rights', pages 92-93 (DNF17).	
<b>Freedom of association and collective bargaining</b>		
G4-DMA	'Social aspects', pages 81-82 (DNF17).	
G4-HR4	'Social aspects', page 82 (DNF17).	
<b>Child labour</b>		
G4-DMA	'Social aspects', pages 81-82 (DNF17).	
G4-HR5	'Social aspects', page 82 (DNF17).	
<b>Forced and compulsory labour</b>		
G4-DMA	'Social aspects', pages 81-82 (DNF17).	
G4-HR6	'Social aspects', page 82 (DNF17).	
<b>Assessment of vendors on human rights issues</b>		
G4-DMA	'Social aspects', pages 81-82 (DNF17).	The data on vendors is collected by means of a qualification questionnaire and then analysed.
G4-HR10	'Social aspects', page 82 (DNF17).	The percentage of new vendors assessed on human rights issues is not considered significant. Saipem assesses vendors who provide goods and services representing more significant commodity codes operating in countries considered critical.
<b>Human rights reports</b>		
G4-DMA	'Respect for human rights', pages 92-93 (DNF17).	
G4-HR12	'Respect for human rights', pages 92-93 (DNF17).	
<b>Society</b>		
<b>Anti-corruption</b>		
G4-DMA	'Fighting corruption', pages 90-91 (DNF17).	
G4-SO4	'Social aspects', pages 81-82 (DNF17); 'Fighting corruption', pages 90-91 (DNF17); 'Anti-corruption procedures', pages 44-45 (CG17); 'Board of Directors induction', page 21 (CG17).	The Saipem Code of Ethics (which makes Saipem's repudiation of any sort of discrimination and corruption clear) is provided to every new employee (at the time of signing the contract) and communicated to governance committee members and business partners. As regards the members of the governance committees, the Company has prepared and implemented a 'Board Induction' programme since May 2015. It was also delivered in 2017. With particular concern to employees, such training specifically targets personnel considered at-risk. This is the reason why the percentage of covered employees is not shown as it is not significant. Moreover, information on the split by employee category and geographical area is not reported.
G4-SO5	'Legal proceedings', pages 164-173 (RF17).	

# INDEPENDENT AUDITORS' REPORT



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Independent auditors' report on the consolidated disclosure of non-financial information in accordance with article 3, paragraph 10, of legislative decree 254/2016 and with article 5 of Consob regulation adopted with resolution 20267  
(Translation from the original Italian text)

To the Board of Directors of  
Saipem S.p.A.

We have performed a limited assurance engagement pursuant to article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution 20267, on the consolidated disclosure of non-financial information of Saipem S.p.A. and its subsidiaries (hereinafter the "Group") for the year ended on December 31, 2017 in accordance with article 4 of the Decree, presented in the specific section of the Management Report and approved by the Board of Directors on March 5, 2018 (hereinafter "DNF").

## Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the "G4 Sustainability Reporting Guidelines", issued in 2013 by GRI - Global Reporting Initiative (hereinafter the "GRI G4 Guidelines"), identified by them as a reporting standard.

The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or not intentional behaviors or events.

The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, paragraph 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

## Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality

EY S.p.A.  
Sede Legale: Via Po, 32 - 00198 Roma  
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.  
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Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

### Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI G4 Guidelines. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;
3. understanding of the following aspects:
  - o group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
  - o policies adopted by the Group related to the matters indicated in article 3 of the Decree, results achieved and related key performance indicators;
  - o main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

With regards to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 4. a) below.

4. Understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF. In particular, we have conducted interviews and discussions with the management of Saipem S.p.A. and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.



Furthermore, for significant information, considering the Group activities and characteristics:

- at group level
  - a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  - b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- For the following companies and sites: Saipem Norge AS and Scarabeo 8 (Norway), Intermare Fabrication Yard (Italy) and Landfall Facility Construction Project (Russia), that we have selected based on their activity, relevance to the consolidated performance indicators and location, we have carried out site visits during which we have had discussions with management and have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

### Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Saipem Group for the year ended on December 31, 2017 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI G4 Guidelines.

### Other Information

The comparative information presented in the DNF for the years ended on December 31, 2016 and December 31, 2015 have not been examined.

Milan, April 5, 2018

EY S.p.A.

Signed by: Marco Di Giorgio, partner

*This report has been translated into the English language solely for the convenience of international readers.*

# **CONSOLIDATED FINANCIAL STATEMENTS 2017**

## Balance sheet

(€ million)	Note	Dec. 31, 2016		Dec. 31, 2017	
		Total	of which with related parties <sup>(1)</sup>	Total	of which with related parties <sup>(1)</sup>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	(No. 7)	1,892	-	1,751	-
Other financial assets held for trading or available for sale	(No. 8)	55		69	
Trade and other receivables	(No. 9)	3,020	663	2,411	402
Inventories	(No. 10)	2,242		1,893	
Current tax assets	(No. 11)	192		213	
Other current tax assets	(No. 12)	241		221	
Other current assets	(No. 13 and 29)	144	1	185	1
<b>Total current assets</b>		<b>7,786</b>		<b>6,743</b>	
<b>Non-current assets</b>					
Property, plant and equipment	(No. 14)	5,192		4,581	
Intangible assets	(No. 15)	755		753	
Investments accounted for using the equity method	(No. 16)	148		142	
Other investments	(No. 16)	1		1	
Deferred tax assets	(No. 17)	302		268	
Other non-current assets	(No. 18 and 29)	102	1	102	1
<b>Total non-current assets</b>		<b>6,500</b>		<b>5,847</b>	
<b>TOTAL ASSETS</b>		<b>14,286</b>		<b>12,590</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term debt	(No. 19)	152	-	120	-
Current portion of long-term debt	(No. 24)	54	-	69	-
Trade and other payables	(No. 20)	4,860	376	4,036	246
Income tax payables	(No. 21)	96		47	
Other current tax payables	(No. 22)	265		191	
Other current liabilities	(No. 23 and 29)	244	8	24	5
<b>Total current liabilities</b>		<b>5,671</b>		<b>4,487</b>	
<b>Non-current liabilities</b>					
Long-term debt	(No. 24)	3,194	-	2,929	-
Provisions for contingencies	(No. 25)	268		340	
Provisions for employee benefits	(No. 26)	206		199	
Deferred tax liabilities	(No. 27)	59		35	
Other non-current liabilities	(No. 28 and 29)	3	-	1	-
<b>Total non-current liabilities</b>		<b>3,730</b>		<b>3,504</b>	
<b>TOTAL LIABILITIES</b>		<b>9,401</b>		<b>7,991</b>	
<b>SHAREHOLDERS' EQUITY</b>					
Non-controlling interests	(No. 30)	19		41	
Saipem's shareholders' equity:	(No. 31)	4,866		4,558	
- share capital	(No. 32)	2,191		2,191	
- share premium reserve	(No. 33)	1,750		1,049	
- other reserves	(No. 34)	(80)		(44)	
- retained earnings		3,161		1,786	
- net profit (loss) for the year		(2,087)		(328)	
- negative reserve for treasury shares in portfolio	(No. 35)	(69)		(96)	
<b>Total shareholders' equity</b>		<b>4,885</b>		<b>4,599</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>14,286</b>		<b>12,590</b>	

(1) For an analysis of figures shown as 'of which with related parties', see Note 49 "Transactions with related parties".

## Income statement

(€ million)	Note	2016		2017	
		Total	of which with related parties <sup>(1)</sup>	Total	of which with related parties <sup>(1)</sup>
<b>REVENUES</b>					
Net sales from operations	(No. 38)	9,976	1,451	8,999	1,866
Other income and revenues	(No. 39)	34		39	
<b>Total revenues</b>		<b>10,010</b>		<b>9,038</b>	
<b>Operating expenses</b>					
Purchases, services and other costs	(No. 40)	(7,319)	(183)	(6,558)	(91)
Payroll and related costs	(No. 41)	(1,782)	-	(1,618)	-
Depreciation, amortisation and impairment	(No. 42)	(2,408)		(736)	
Other operating income (expense)		-	-	-	-
<b>OPERATING RESULT</b>		<b>(1,499)</b>		<b>126</b>	
<b>Finance income (expense)</b>					
Finance income		867	94	309	1
Finance expense		(868)	(111)	(617)	-
Derivative financial instruments		(153)	(311)	85	-
<b>Total finance income (expense)</b>	(No. 43)	<b>(154)</b>		<b>(223)</b>	
<b>Income (expense) from investments</b>					
Share of profit (loss) of equity accounted investments		18		(9)	
Other income from investments		-		-	
<b>Total income (expense) from investments</b>	(No. 44)	<b>18</b>		<b>(9)</b>	
<b>RESULT BEFORE INCOME TAXES</b>		<b>(1,635)</b>		<b>(106)</b>	
Income taxes	(No. 45)	(445)		(201)	
<b>NET PROFIT (LOSS) FOR THE YEAR</b>		<b>(2,080)</b>		<b>(307)</b>	
Attributable to:					
- Saipem		(2,087)		(328)	
- non-controlling interests	(No. 46)	7		21	
<b>Earnings (losses) per share attributable to Saipem</b> (€ per share)					
Basic earnings (losses) per share	(No. 47)	(2.50) <sup>(2)</sup>		(0.33)	
Diluted earnings (losses) per share	(No. 47)	(2.48) <sup>(2)</sup>		(0.32)	

(1) For an analysis of figures shown as 'of which with related parties', see Note 49 'Transactions with related parties'.

(2) Values restated following the reverse stock split (see Note 47 'Earnings (losses) per share').

## Statement of comprehensive income

(€ million)	2016	2017
<b>Net profit (loss) for the year</b>	<b>(2,080)</b>	<b>(307)</b>
<b>Other items of comprehensive income</b>		
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Remeasurements of defined benefit plans for employees	1	-
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans	(1)	-
Income tax relating to items that will not be reclassified	(1)	(1)
	<b>(1)</b>	<b>(1)</b>
<b>Items that may be reclassified subsequently to profit or loss</b>		
Change in the fair value of cash flow hedges	125	297
Changes in the fair value of investments held as fixed assets	1	-
Change to the fair value of financial instruments available for sale	-	(1)
Exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(37)	(176)
Share of other comprehensive income of investments accounted for using the equity method	-	-
Income tax relating to items that will be reclassified	(37)	(73)
	<b>52</b>	<b>47</b>
<b>Total other items of comprehensive income net of taxation</b>	<b>51</b>	<b>46</b>
<b>Total comprehensive income (loss) for the year</b>	<b>(2,029)</b>	<b>(261)</b>
Attributable to:		
- Saipem Group	(2,039)	(279)
- non-controlling interests	10	18

## Statement of changes in shareholders' equity

	Saipem shareholders' equity															
(€ million)	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Investments carried at fair value	Cash flow hedge reserve, net of tax	Fair value reserve financial instruments available for sale net of tax effects	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings (losses carried forward)	Net profit (loss) for the year	Negative reserve for treasury shares in portfolio	Total	Minority interest	Total shareholders' equity
Balance at December 31, 2014	441	55	6	88	-	-	(275)	-	(9)	(19)	4,123	(230)	(43)	4,137	41	4,178
<b>2015 net profit (loss)</b>	-	-	-	-	-	-	-	-	-	-	-	(806)	-	(806)	17	(789)
<b>Other items of comprehensive income</b>																
<b>Items that will not be reclassified subsequently to profit or loss</b>																
Remeasurements of defined benefit plans for employees net of the tax effect	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
<b>Items that may be reclassified subsequently to profit or loss</b>																
Change in the fair value of cash flow hedging derivatives net of the tax effect	-	-	-	-	-	-	8	-	-	-	-	-	-	8	(1)	7
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	-	-	85	-	11	-	-	96	4	100
Share of other comprehensive income of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	8	-	85	-	11	-	-	104	3	107
<b>Total comprehensive income (loss) for 2015</b>	-	-	-	-	-	-	8	-	85	-	11	(806)	-	(702)	21	(681)
<b>Transactions with shareholders</b>																
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(17)	(17)
Retained earnings	-	-	-	-	-	-	-	-	-	-	(230)	230	-	-	-	-
Contribution from non-controlling interests Snamprogetti Engineering & Contracting Co Ltd	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
<b>Total</b>	-	-	-	-	-	-	-	-	-	-	(230)	230	-	-	(16)	(16)
<b>Other changes in shareholders' equity</b>																
Expired stock options	-	-	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Other changes	-	-	-	-	-	-	-	-	-	1	2	-	-	3	(1)	2
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	37	-	-	37	-	37
<b>Total</b>	-	-	-	-	-	-	-	-	-	1	38	-	-	39	(1)	38
<b>Balance at December 31, 2015</b>	<b>441</b>	<b>55</b>	<b>6</b>	<b>88</b>	<b>-</b>	<b>-</b>	<b>(267)</b>	<b>-</b>	<b>76</b>	<b>(18)</b>	<b>3,942</b>	<b>(806)</b>	<b>(43)</b>	<b>3,474</b>	<b>45</b>	<b>3,519</b>
<b>2016 net profit (loss)</b>	-	-	-	-	-	-	-	-	-	-	-	(2,087)	-	(2,087)	7	(2,080)
<b>Other items of comprehensive income</b>																
<b>Items that will not be reclassified subsequently to profit or loss</b>																
Remeasurements of defined benefit plans for employees net of the tax effect	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
<b>Total</b>	-	-	-	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
<b>Items that may be reclassified subsequently to profit or loss</b>																
Change in the fair value of cash flow hedging derivatives net of the tax effect	-	-	-	-	-	-	85	-	-	-	-	-	-	85	3	88
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	-	-	(44)	(1)	8	-	-	(37)	-	(37)
Changes in investments and securities at fair value	-	-	-	-	-	-	-	-	-	-	1	-	-	1	-	1
<b>Total</b>	-	-	-	-	-	-	85	-	(44)	(1)	9	-	-	49	3	52

cont'd **Statement of changes in shareholders' equity**

(€ million)	Saipem shareholders' equity													Total	Minority interest	Total shareholders' equity
	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Investments carried at fair value	Cash flow hedge reserve, net of tax	Fair value reserve financial instruments available for sale net of tax effects	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings (losses carried forward)	Net profit (loss) for the year	Negative reserve for treasury shares in portfolio			
<b>Total</b>	-	-	-	-	-	-	85	-	(44)	(1)	9	-	-	49	3	52
<b>Total comprehensive income (loss) for 2016</b>	-	-	-	-	-	-	85	-	(44)	(2)	9	(2,087)	-	(2,039)	10	(2,029)
<b>Transactions with shareholders</b>																
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(36)	(36)
Retained earnings (losses)	-	(55)	(5)	-	-	-	-	-	-	-	(746)	806	-	-	-	-
Increase (reduction) of share capital	1,750	1,750	-	-	-	-	-	-	-	-	-	-	-	3,500	-	3,500
Capitalisation of costs of share capital increase net of taxes	-	-	-	-	-	-	-	-	-	-	(47)	-	-	(47)	-	(47)
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	-	-	-	(26)	(26)	-	(26)
<b>Total</b>	<b>1,750</b>	<b>1,695</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(793)</b>	<b>806</b>	<b>(26)</b>	<b>3,427</b>	<b>(36)</b>	<b>3,391</b>
<b>Other changes in shareholders' equity</b>																
Expired stock options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value of Stock Grant Plan 2016	-	-	-	-	-	-	-	-	-	-	5	-	-	5	-	5
Other changes	-	-	1	-	-	-	-	-	-	-	(4)	-	-	(3)	-	(3)
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	2	-	-	2	-	2
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>4</b>
<b>Balance at December 31, 2016</b>	<b>2,191</b>	<b>1,750</b>	<b>2</b>	<b>88</b>	<b>-</b>	<b>-</b>	<b>(182)</b>	<b>-</b>	<b>32</b>	<b>(20)</b>	<b>3,161</b>	<b>(2,087)</b>	<b>(69)</b>	<b>4,866</b>	<b>19</b>	<b>4,885</b>
<b>Comprehensive net profit (loss) 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(328)</b>	<b>-</b>	<b>(328)</b>	<b>21</b>	<b>(307)</b>
<b>Other items of comprehensive income</b>																
<b>Items that will not be reclassified subsequently to profit or loss</b>																
Remeasurements of defined benefit plans for employees net of the tax effect	-	-	-	-	-	-	-	-	(1)	-	-	-	-	(1)	-	(1)
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
<b>Items that may be reclassified subsequently to profit or loss</b>																
Change in the fair value of cash flow hedging derivatives net of the tax effect	-	-	-	-	-	223	-	-	-	-	-	-	-	223	1	224
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	-	(187)	-	15	-	-	-	(172)	(4)	(176)
Share of other comprehensive income of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change to fair value financial instruments available for sale net of tax effects	-	-	-	-	-	-	(1)	-	-	-	-	-	-	(1)	-	(1)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>223</b>	<b>(1)</b>	<b>(187)</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>(3)</b>	<b>47</b>
<b>Total comprehensive income (loss) for 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>223</b>	<b>(1)</b>	<b>(187)</b>	<b>(1)</b>	<b>15</b>	<b>(328)</b>	<b>-</b>	<b>(279)</b>	<b>18</b>	<b>(261)</b>	
<b>Transactions with shareholders</b>																
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7)	(7)
Retained earnings (losses)	-	(701)	-	-	-	-	-	-	-	(1,386)	2,087	-	-	-	-	-
Increase (reduction) of share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalisation of costs of share capital increase net of taxes	-	-	-	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	-	-	(27)	-	(27)	-	(27)
<b>Total</b>	<b>-</b>	<b>(701)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,387)</b>	<b>2,087</b>	<b>(27)</b>	<b>(28)</b>	<b>(7)</b>	<b>(35)</b>	
<b>Other changes in shareholders' equity</b>																
Fair value of Stock Grant Plan 2017	-	-	-	-	-	-	-	-	-	10	-	-	-	10	-	10
Other changes	-	-	-	-	1	-	-	1	-	(13)	-	-	-	(11)	11	-
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>11</b>	<b>10</b>	
<b>Balance at December 31, 2017</b>	<b>2,191</b>	<b>1,049</b>	<b>2</b>	<b>88</b>	<b>-</b>	<b>1</b>	<b>41</b>	<b>(1)</b>	<b>(154)</b>	<b>(21)</b>	<b>1,786</b>	<b>(328)</b>	<b>(96)</b>	<b>4,558</b>	<b>41</b>	<b>4,599</b>

## Cash flow statement

(€ million)	Note	2016	2017
Net profit (loss) for the year		(2,087)	(328)
Non-controlling interests		7	21
Adjustments to reconcile net profit (loss) for the year to net cash provided by operating activities:			
- depreciation and amortisation	(No. 42)	684	505
- net impairment of tangible and intangible assets	(No. 42)	1,724	231
- share of profit (loss) of equity accounted investments	(No. 44)	(18)	9
- net (gains) losses on disposal of assets		5	(2)
- interest income		(10)	(7)
- interest expense		81	88
- income taxes	(No. 45)	445	201
- other changes		(177)	39
Changes in working capital:			
- inventories		19	220
- trade receivables		262	429
- trade payables		168	(397)
- provisions for contingencies		50	69
- other assets and liabilities		148	(244)
<i>Cash flow from working capital</i>		<i>647</i>	<i>77</i>
Change in the provision for employee benefits		(5)	-
Dividends received		1	2
Interest received		8	6
Interest paid		(74)	(66)
Income taxes paid net of refunds of tax credits		(253)	(317)
<b>Net cash provided by operating activities</b>		<b>978</b>	<b>459</b>
<i>of which with related parties</i> <sup>(1)</sup>	(No. 49)		<b>1,906</b>
Investing activities:			
- tangible assets	(No. 14)	(285)	(253)
- intangible assets	(No. 15)	(11)	(9)
- investments	(No. 16)	-	(25)
- securities		(29)	(14)
- financing receivables		(22)	(4)
- change in payables and receivables relating to investments		(1)	-
<i>Cash flow from investing activities</i>		<i>(348)</i>	<i>(305)</i>
Disposals:			
- tangible assets		14	12
- consolidated subsidiaries and businesses		-	1
- investments		3	4
- financing receivables		52	6
<i>Cash flows from disposals</i>		<i>69</i>	<i>23</i>

(1) For an analysis of figures shown as 'of which with related parties', see Note 49 'Transactions with related parties'.

cont'd **Cash flow statement**

(€ million)	Note	2016	2017
<b>Net cash used in investing activities</b> <sup>(2)</sup>		<b>(279)</b>	<b>(282)</b>
<i>of which with related parties</i> <sup>(1)</sup>	(No. 49)	<b>2</b>	<b>1</b>
Proceeds from long-term debt		3,228	1,392
Repayments of long-term debt		(3,481)	(1,642)
Increase (decrease) in short-term debt		(3,000)	43
		<b>(3,253)</b>	<b>(207)</b>
Net capital contributions by non-controlling interests		3,435	(2)
Dividend distribution		(36)	-
Net purchases of treasury shares		(26)	(27)
<b>Net cash from financing activities</b>		<b>120</b>	<b>(236)</b>
<i>of which with related parties</i> <sup>(1)</sup>	(No. 49)	<b>(5,995)</b>	<b>-</b>
Effect of changes in consolidation		-	-
Effect of exchange rate changes and other changes on cash and cash equivalents		7	(82)
<b>Net cash flow for the year</b>		<b>826</b>	<b>(141)</b>
<b>Cash and cash equivalents - beginning of year</b>	(No. 7)	<b>1,066</b>	<b>1,892</b>
<b>Cash and cash equivalents - end of year</b>	(No. 7)	<b>1,892</b>	<b>1,751</b>

(1) For an analysis of figures shown as 'of which with related parties', see Note 49 'Transactions with related parties'.

(2) Net cash used in investing activities included investments in certain financial assets to absorb temporary surpluses of cash or as part of our ordinary management of financing activities. Due to their nature and the fact that they are very liquid, these financial assets are netted against finance debt in determining net borrowings. For the definition of net borrowings, see the 'Financial and economic results' section of the 'Directors' Report'.

The cash flows of these investments were as follows:

(€ million)	2016	2017
Financing investments:		
- securities	(29)	(14)
- financing receivables	(21)	(3)
Disposal of financing investments:		
- financing receivables	51	4
<b>Net cash flows from investments/disposals related to financing activities</b>	<b>1</b>	<b>(13)</b>

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 Basis of presentation

The consolidated financial statements of Saipem have been prepared in accordance with the International Financial Reporting Standards (IFRS)<sup>1</sup> issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005<sup>2</sup>. The consolidated financial statements have been prepared by applying the cost method, with adjustments where appropriate, except for items that under IFRS must be recognised at fair value, as described in the accounting policies section.

The consolidated financial statements at December 31, 2017 approved by Saipem's Board of Directors on March 5, 2018, were audited by the independent auditor EY SpA. As Saipem's main auditor, EY SpA is fully responsible for auditing the Group's consolidated financial statements. In those limited cases where other auditors operate, EY SpA also assumes responsibility for their work. Amounts stated in financial statements and the notes thereto are in millions of euros.

## 2 Principles of consolidation

### Subsidiaries

The consolidated financial statements include the financial statements of Saipem SpA and the Italian and foreign companies over which it has direct and indirect control.

An investor controls an investee when it is exposed, or has rights, to variable returns of the investee and has the ability to affect those returns through its decision-making power over the investee. An investor has decision-making power when it has existing rights that give it the current ability to direct the relevant activities of the investee, i.e. the activity that significantly affect the investee's returns.

A number of subsidiaries performing only limited operating activities (considered on both an individual and an aggregate basis) have not been consolidated. Their non-consolidation does not have a material impact<sup>3</sup> on the correct

representation of the Group's total assets, liabilities, net financial position and results for the year. These interests are accounted for as described in the following section 'Equity method of accounting'.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

Fully-owned subsidiaries are consolidated using the full consolidation method. Assets and liabilities, and revenues and expenses related to fully consolidated companies are therefore wholly incorporated into the consolidated financial statements. The book value of these interests is eliminated against the corresponding portion of their shareholders' equity.

Equity and net profit attributable to minority interests are shown separately in the consolidated balance sheet and consolidated income statement, respectively.

In the event that additional ownership interests in subsidiaries are purchased from non-controlling shareholders, any difference between the amount paid and the carrying value of the interest acquired is recognised directly in equity attributable to the Saipem Group. The effects of disposals of ownership interests in a subsidiary that do not result in a loss of control are also recognised in equity.

Conversely, a disposal of interests that implies loss of control, triggers recognition in the income statement of: (i) any gains or losses calculated as the difference between the consideration received and the carrying amount of the share of net assets disposed of; (ii) any gains or losses attributable to the adjustment of any investment retained at its fair value; and (iii) any amounts recognised in other comprehensive income in relation to the former subsidiary that may be reclassified subsequently to profit or loss<sup>4</sup>. Any investment retained in the former subsidiary is recognised at its fair value at the date when control is lost and shall be accounted for in accordance with the applicable measurement criteria.

If losses applicable to minority interests in a consolidated subsidiary exceed the minority interests in the subsidiary's equity, the excess and any further losses applicable to the minority interests are allocated against the majority's interest, except to the extent that the minority

(1) The IFRS include the International Accounting Standards (IAS), which are still in force, as well as the interpretations issued by the IFRS Interpretations Committee (formerly known as the International Financial Reporting Interpretations Committee, or IFRIC, and before that, the Standing Interpretations Committee, or SIC).

(2) The international accounting standards used in the preparation of the consolidated financial statements are essentially the same as those issued by the IASB and in force in 2017, since the current differences between the IFRS endorsed by the European Commission and those issued by the IASB relate to situations that do not affect the Group.

(3) According to the IASB Conceptual Framework: 'information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements'.

(4) Conversely, any amounts recognised in other comprehensive income in relation to the former subsidiary that may not be reclassified to profit or loss are transferred directly to retained earnings.

interests have a binding obligation and are able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority's interest until the minority interests' share of losses previously absorbed by the majority's interest have been recovered.

### Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method, as indicated in the following section, 'Equity method of accounting'. A joint operation is a joint arrangement whereby the parties that have joint control have enforceable rights to the assets and obligations for the liabilities (so called enforceable rights and obligations) relating to the arrangement; verification of the existence of enforceable rights and obligations requires the exercising of a complex judgement by the company management and it is operated considering the characteristics of the corporate structure, the agreements between the parties, and any other facts or circumstances relevant to the purposes of the verification. Saipem's share of the assets, liabilities, revenues and expenses of joint operations is recognised in the consolidated financial statements on the basis of the actual rights and obligations arising from the contractual arrangements. After initial recognition, the assets, liabilities, revenues and expenses relating to a joint operation are accounted for in accordance with the applicable accounting standards. Joint operations, that are separate legal entities non-material, are accounted for using the equity method or, if this does not have a significant impact on total assets, liabilities, net financial position and results for the year, measured at cost, adjusted for impairment.

### Investments in associates

An associate is an entity over which Saipem has significant influence, which is the power to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies. Investments in associates are accounted for using the equity method, as indicated in the following section 'Equity method of accounting'. Consolidated companies, non-consolidated subsidiaries, joint ventures, investments in joint operations and associates are indicated in the section 'Scope of consolidation'. After this section, there follows a list detailing the changes

in the consolidation area from the previous year. Financial statements of consolidated companies are audited by independent auditors, who also examine and certify the information required for the preparation of the consolidated financial statements.

### Equity method of accounting

Investments in subsidiaries excluded from consolidation, in joint ventures and in associates are accounted for using the equity method<sup>5</sup>. In accordance with the equity method of accounting, investments are initially recognised at purchase cost. Any difference between the cost of the investment and the Company's share of the fair value of the net identifiable assets of the investment is treated in the same way as for business combinations. The allocation, made on a provisional basis at the initial recognition date, can be adjusted, retroactively, within the following twelve months to take into account new information regarding facts and circumstances existing at the date of initial recognition. Subsequently, the carrying amount is adjusted to reflect: (i) the post-acquisition change in the investor's share of net assets of the investee; and (ii) the investor's share of the investee's other comprehensive income. Shares of changes in the net assets of investees that are not recognised in profit or loss or other comprehensive income of the investee are recognised in the income statement when they reflect the substance of a disposal of an interest in said investee. Dividends received from an investee reduce the carrying amount of the investment. When using the equity method, the adjustments required for the consolidation process are applied (see 'Principles of consolidation'). When there is objective evidence of impairment (see also 'Current financial assets'), the recoverability is tested by comparing the carrying amount and the related recoverable amount determined adopting the criteria indicated in the item 'Tangible assets'. If it does not result in a misrepresentation of the Company's financial condition and consolidated results, subsidiaries excluded from consolidation, joint ventures and associates are accounted for at cost, adjusted for impairment charges. When an impairment loss no longer exists, a reversal of the impairment loss is recognised in the income statement within 'Other income (expense) from investments'.

A disposal of interests that results in a loss of joint control or significant influence causes recognition in the income statement of: (i) any gains or losses calculated as the difference between the consideration received and the carrying amount of the share of net assets disposed of; (ii) any gains or losses attributable to the adjustment of any investment retained at its fair value<sup>6</sup>; (iii) any amounts recognised in other comprehensive income in relation to the investee

*(5) In the case of step acquisition of a significant influence (or joint control), the investment is recognised, at the acquisition date of significant influence (joint control), at the amount deriving from the use of the equity method assuming the adoption of this method since initial acquisition; the 'step-up' of the carrying amount of interests owned before the acquisition of significant influence (joint control) is taken to equity.*

*(6) If the investment retained continues to be measured using the equity method, it is not remeasured at fair value.*

that may be reclassified subsequently to profit or loss<sup>7</sup>. Any investment retained in the investee is recognised at its fair value at the date when joint control or significant influence are lost and shall be accounted for in accordance with the applicable measurement criteria.

The investor's share of any losses exceeding the carrying amount is recognised in a specific provision to the extent that that investor is required to fulfil legal or implicit obligations towards the investee or to cover its losses.

### Business combinations

Business combination transactions are recognised using the acquisition method. The amount transferred in a business combination is determined at the date the controlling interest is acquired and is equivalent to the fair value of the assets transferred, of liabilities incurred or assumed, and of any equity instruments issued by the acquirer. Costs directly attributable to the transaction are recognised in the income statement when they are incurred.

The shareholders' equity in consolidated companies is determined by attributing to each of the balance sheet items its fair value at the date on which control is acquired<sup>8</sup>, except for where International Financial Reporting Standards require otherwise. The excess of the purchase price of an acquired entity over the total fair value assigned to assets acquired and liabilities assumed is recognised as goodwill. Negative goodwill is recognised in the income statement.

In the case of partial control being obtained, the share of equity net of non-controlling interests is determined on the basis of the relevant share of current value attributed to assets and liabilities on the date on which control of the company was obtained, excluding any goodwill that can be attributed to the value (so-called partial goodwill method). Alternatively, the entire amount of goodwill is recognised that was generated by the acquisition, thus considering also the share attributable to the non-controlling interests (so-called full goodwill method); in the latter case the non-controlling interests are stated at their overall fair value, thus also including the goodwill of the non-controlling interests<sup>9</sup>. The choice of either the partial goodwill or the full goodwill method is made for each individual business combination.

Where control of a company is achieved in stages, the purchase cost is determined by adding the fair value of the previously held ownership interest and the consideration paid for the additional ownership interest. Any difference between the fair value of the previous ownership interest and its carrying amount is recognised in the income statement. In addition, when control of a company is obtained, any amounts recognised in other comprehensive income in relation to the

company are taken to profit or loss. Amounts that may not be reclassified to profit or loss are recognised in equity.

Where provisional amounts have been recorded for the assets and liabilities of an acquiree during the reporting period in which a business combination occurs, these amounts are retrospectively adjusted within one year of the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

The acquisition of interests in a joint operation that represents a business is recognised, for applicable aspects in the same way as provided for business combination.

### Intra-group transactions

Unrealised intercompany profit arising on transactions between consolidated companies is eliminated, as are intercompany receivables, payables, revenues and expenses, guarantees (including performance bonds), commitments and risks between consolidated companies. Unrealised profits resulting from transactions with equity accounted investments are eliminated in proportion to the Group's interest. In both case, intercompany losses are not eliminated since they are considered an impairment indicator of the assets transferred.

### Foreign currency translation

The financial statements of investees operating in a currency other than the euro, which is the Group's presentation currency, have been converted into euros by applying: (i) to balance sheet items the exchange rates obtaining at year end; (ii) to shareholders' equity the historical exchange rates; (iii) to the income statement and the cash flow statement, the average exchange rates over the year (source: Banca d'Italia).

The cumulative exchange rate differences resulting from the conversion of the financial statements of subsidiaries operating in a currency other than the euro, and deriving from the application of different exchange rates for payables and receivables, are recognised in shareholders' equity and in the income statement under the item 'Cumulative currency translation differences' (included in 'Other reserves') for the portion relating to the Group's share<sup>10</sup>. The currency translation differences reserve is charged to the income statement when an investment is fully disposed of or when control, joint control or significant influence is lost. In such circumstances, the differences are taken to profit or loss under the item 'Other income (expense) from investments'. In the event of a partial disposal that does not result in the loss of control, the portion of exchange differences relating to the interest sold is recognised under minority interest in equity.

(7) Conversely, any amounts recognised in other comprehensive income in relation to the former joint venture or associate that may not be reclassified to profit or loss are transferred directly to retained earnings.

(8) The criteria used for determining fair value are described in the section 'Fair value measurement'.

(9) The decision to apply the partial or full goodwill method is also made for business combinations where negative goodwill is taken to the income statement (i.e. a gain on bargain purchase).

(10) The share of non-controlling interest in the cumulative exchange rate differences resulting from the translation is recognised in equity under 'Non-controlling interests'.

In the event of a partial disposal that does not result in the loss of joint control or significant influence, the portion of exchange differences relating to the interest disposed of is taken to profit or loss. The repayment of the capital, carried out by a subsidiary operating in a currency other than the euro, without changing the equity investment held, entails charging the corresponding portion of the exchange rate differences to the income statement.

The financial statements translated into euros are those denominated in the functional currency, i.e. the local currency or the currency in which most financial transactions and assets and liabilities are denominated.

The exchange rates that have been applied for the translation of financial statements in foreign currencies are as follows:

Currency	Exchange rate at Dec. 31, 2016	Exchange rate at Dec. 31, 2017	2017 average exchange rate
US Dollar	1.0541	1.1993	1.1297
British Pound Sterling	0.85618	0.88723	0.87667
Algerian Dinar	116.379	137.8343	125.3194
Angolan Kwanza	175.757	198.906	187.451
Argentine Peso	16.7488	22.931	18.7408
Australian Dollar	1.4596	1.5346	1.4732
Brazilian Real	3.4305	3.9729	3.6054
Canadian Dollar	1.4188	1.5039	1.4647
Croatian Kuna	7.5597	7.44	7.4637
Egyptian Pound	19.2105	21.3309	20.1564
Ghanaian New Cedi	4.4073	5.4313	4.93881
Indian Rupee	71.5935	76.6055	73.5324
Indonesian Rupee	14,173.4	16,239.12	15,118.02
Kazakhstan Tenghe	351.524	397.96	368.876
Malaysian Ringgit	4.7287	4.8536	4.8527
Nigerian Naira	332.305	367.046	350.938
Norwegian Kroner	9.0863	9.8403	9.327
Peruvian New Sol	3.5402	3.8854	3.68329
Qatari Riyal	3.83692	4.3655	4.11204
Romanian New Leu	4.539	4.6585	4.5688
Russian Rouble	64.3	69.392	65.9383
Saudi Arabian Riyal	3.95446	4.4974	4.23664
Singapore Dollar	1.5234	1.6024	1.5588
Swiss Franc	1.0739	1.1702	1.1117

### 3 Summary of significant accounting policies

The most significant accounting policies used for the preparation of the consolidated financial statements are shown below.

#### Current assets

##### Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits and financial assets with original maturities of 90 days or less that are readily convertible to cash amounts and which are subject to an insignificant risk of changes in value.

##### Inventories

Inventories, with the exception of contract work-in-progress, are stated at the lower of purchase or production cost and net realisable value: net realisable value is defined as the estimated selling price of the inventory in the ordinary course of business. The cost of inventories is determined by applying the weighted average cost method, while market value – given that the inventories are mainly spare parts – is taken as the lower of

replacement cost or net realisable value.

Work-in-progress relating to long-term contracts is stated on the basis of agreed contract revenue determined with reasonable certainty, recognised in proportion to the stage of completion of contract activity.

Given the nature of the contracts and the type of work, the percentage of completion is calculated on the basis of the work performed, being the percentage of costs incurred with respect to the total estimated costs (cost-to-cost method).

Adjustments made for the economic effects of using this method on net sales from operations, to reflect differences between amounts earned based on the percentage of completion and recognised revenues, are included under contract work-in-progress if positive or under trade payables if negative.

When hedged by derivative contracts qualifying for hedge accounting, revenues denominated in foreign currencies are translated at the contracted rates. Otherwise, they are translated at the exchange rate prevailing at year-end. The same method is used for any costs in a foreign currency. The valuation of work-in-progress considers all directly related costs, contractual risks and

contract revision clauses, where they can be objectively determined.

Modifications to original contracts for additional works are recognised when realisation is probable and the amount can be reliably estimated. Expected losses on contracts are recognised fully in the year in which they become probable. Bidding costs are expended in the year in which they are incurred.

#### Current financial assets

Available-for-sale financial assets include financial assets other than held-for-trading financial assets and held-to-maturity financial assets. Held for trading financial assets and available-for-sale financial assets are measured at fair value with gains or losses recognised in the income statement under 'Finance income (expense)' and in the equity reserve<sup>11</sup> related to 'Other items of comprehensive income', respectively. In the latter case, changes in fair value recognised in equity are reclassified in the income statement when the asset is sold or impaired.

Assets are assessed for objective evidence of an impairment loss. This may include significant breaches of contracts, serious financial difficulties and the high probability of insolvency of the counterparty. Losses are deducted from the respective carrying amount of the asset.

Interest and dividends on financial assets measured at fair value are accounted for on an accruals basis as 'Finance income (expense)<sup>12</sup> and 'Other income (expense) from investments', respectively.

When the purchase or sale of a financial asset occurs under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned (e.g. purchase of securities on regulated markets or over-the-counter), the transaction is accounted for on the settlement date.

Receivables are stated at amortised cost (see 'Financial fixed assets - Receivables and financial assets held to maturity').

#### Non-current assets

##### Tangible assets

Tangible assets are recognised using the cost model and stated at their purchase or production cost including any costs directly attributable to bringing the asset into operation. In addition, when a substantial amount of time is required to make the asset ready for use, the purchase price or production cost includes borrowing costs that theoretically would have been avoided had the investment not been made. The purchase or production cost is net of government grants related to assets, which are only recognised when all the required conditions have been met.

In the case of a present obligation for the

dismantling and removal of assets and the restoration of sites, the carrying value includes, with a corresponding entry to a specific provision, the estimated (discounted) costs to be borne at the moment the asset is retired. The accounting treatment of changes in estimates for these provisions, the passage of time and the discount rate are indicated under 'Provisions for contingencies'.

Revaluation of tangible assets is not allowed, not even in application of specific laws with the exception of tangible assets which had been written down in previous years, as better explained below.

Assets held under finance leases or under leasing arrangements that do not take the legal form of a finance lease but substantially transfer all the risks and rewards of ownership of the leased asset are recognised, on the date in which the contract enters into effect, at fair value, net of taxes due from the lessor or, if lower, at the present value of the minimum lease payments, within tangible assets. A corresponding financial debt payable to the lessor is recognised as a financial liability. These assets are depreciated using the criteria described below. Where it is not reasonably certain that the purchase option will be exercised, leased assets are depreciated over the shorter of the lease term and the estimated useful life of the asset.

Expenditures on renewals, improvements and transformations that extend the useful lives of the related asset are capitalised when it is likely that they will increase the future economic benefits expected from the asset. Also items purchased for safety or environmental reasons have been capitalised, even if they do not directly increase the future economic benefits of the existing assets, as they are necessary for obtaining benefits from other tangible assets.

Depreciation and amortisation of tangible assets begins when the asset is ready for use, in other words when it is in the place and in the conditions necessary for it to be able to operate according to the planned modalities.

Tangible assets are depreciated systematically using a straight-line method over their useful life, which is an estimate of the period over which the assets will be used by the company. When the tangible asset comprises more than one significant element with different useful lives, each component is depreciated separately. The depreciable amount of an asset is its cost less the estimated residual value at the end of its useful life, if this is significant and can be reasonably determined. Land is not depreciated, even where purchased with a building. Tangible assets held for sale are not depreciated but are valued at the lower of book value and fair value less costs to sell (see 'Non-current assets held for sale and discontinued operations'). Changes to depreciation schedules related to changes in the

(11) Fair value changes in available-for-sale financial assets due to foreign exchange rate movements are taken to profit or loss.

(12) Accrued interest income on financial assets held for trading is considered in the overall fair value measurement of the asset and is recognised as 'Finance income (expense) from financial assets held for trading' under 'Finance income (expense)'. Accrued interest income on available-for-sale financial assets, meanwhile, is recognised as 'Finance income' under 'Finance income (expense)'.

expected future useful life of an asset, the residual value or in the expected pattern of consumption of the future economic benefits flowing from an asset are recognised in the income statement in the year they occur.

Replacement costs of identifiable components in complex assets are capitalised and depreciated over their useful life. The residual book value of the component that has been replaced is charged to the income statement. Improvements to leased assets are depreciated during the useful life of the improvements or, if shorter, during the residual life of the lease, taking into account the possible period of renewal if the renewal depends only on the lessor and is virtually certain. Ordinary maintenance and repair expenses, not including the replacement of identifiable components and that repair but do not increase the performance of the goods, are charged to the statement of income for the year in which the expenses were incurred.

The carrying value of tangible assets is reviewed for impairment whenever events indicate that the carrying amounts for those assets may not be recoverable. The recoverability of an asset is assessed by comparing its carrying value with the recoverable amount, represented by the higher of fair value less costs to sell and value in use.

Value in use is the present value of the future cash flows expected to be derived from the use of the asset and, if significant and reasonably determinable, from its disposal at the end of its useful life, net of disposal costs. Expected cash flows are determined on the basis of reasonable and documented assumptions that represent the best estimate of the future economic conditions during the remaining useful life of the asset, giving more importance to external information while taking into account the specificities of Saipem's business. Discounting is carried out at a rate that reflects current market assessments of the time value of money and the risks specific to the asset that are not reflected in the estimate of future cash flows. Specifically, the discount rate used is the Weighted Average Cost of Capital (WACC) defined on the basis of the Capital Asset Pricing Model (CAPM) methodology, consistent with the specific risk of Saipem's share.

Value in use is calculated by using post-tax cash flows discounted at a post-tax discount rate, as this method results in values similar to those resulting from discounting pre-tax cash flows at a pre-tax discount rate deriving, through an iteration process, from a post-tax valuation.

Valuation is carried out for each single asset or for the smallest identifiable group of assets that generates independent cash inflows from their continuous use, referred to as cash generating units. In presence of indicators suggesting that the reasons for impairment ceased to exist, the impairment loss is reversed to the income statement as income from revaluation. The value of the asset is written back to the lower of the recoverable amount and the original book value before impairment, less the depreciation that

would have been charged had no impairment loss been recognised.

The tangible assets are derecognised at the moment of their disposal and when no future economic benefit is expected from their use or disposal; the relative profit or loss is recognised in the income statement.

Tangible assets destined for specific operating projects, for which no further future use is envisaged due to the characteristics of the asset itself or the high usage sustained during the execution of the project, are amortised over the duration of the project.

#### Intangible assets

Intangible assets are identifiable assets without physical substance, controlled by the company and capable of producing future economic benefits, and goodwill acquired in business combinations. An asset is classified as intangible when management is able to distinguish it clearly from goodwill. This condition is normally met when: (i) the intangible asset arises from legal or contractual rights, or (ii) the asset is separable, i.e. can be sold, transferred, licensed, rented or exchanged, either individually or as an integral part of other assets. An entity controls an intangible asset if it has the power to obtain the future economic benefits deriving from the underlying resource and to restrict the access of others to those benefits. Intangible assets are stated at cost as determined with the criteria used for tangible assets.

Revaluation of intangible assets is not allowed, not even in application of specific laws.

Intangible assets with a defined useful life are amortised systematically over their useful life estimated as the period over which the assets will be used by the company. The amount to be amortised and the recoverability of their book value are determined in accordance with the criteria described in the section 'Tangible assets'. Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill is tested for impairment at the level of the cash generating unit (CGU) to which goodwill relates. The cash generating unit is the smallest identifiable group of assets (including goodwill itself) that generates cash inflows and outflows from continuing use, and that are largely independent of the cash inflows from other assets or groups of assets and on the basis of which top management assesses the profitability of the business. If the carrying amount of the cash generating unit, including goodwill allocated thereto, determined by taking into account the impairment of current and non current assets that are part of the CGU, exceeds the CGU's recoverable amount<sup>13</sup>, the excess is recognised as impairment. The impairment loss is first

(13) For the definition of recoverable amount see 'Tangible assets'.

allocated to reduce the carrying amount of goodwill. Any remaining excess is allocated on a pro-rata basis to the carrying value of the other assets with defined useful life that form the cash generating unit. Impairment charges against goodwill are not reversed<sup>14</sup>.

Intangible assets are eliminated at the moment of their disposal or when no future economic benefit is expected from their use or disposal; the relative profit or loss is reported in the income statement.

#### Costs of technological development activities

Costs of technological development activities are capitalised when the company can demonstrate that:

- (a) there is the technical capacity to complete the asset and make it available for use or sale;
- (b) there is the intention to complete the asset and make it available for use or sale;
- (c) it is possible to make the asset available for use or sale;
- (d) it can be shown that the asset is able to produce future economic benefits;
- (e) technical, financial and other resources are available to complete development of the asset and make the asset available for use or sale;
- (f) the cost attributable to the intangible asset can be reasonably determined.

#### Grants related to assets

Grants related to assets are recorded as a reduction of the purchase price or production cost of the related assets when there is reasonable assurance that all the required conditions attached to them, agreed upon with government entities, will be met.

#### Financial fixed assets

##### INVESTMENTS

Financial assets that are equity investments<sup>15</sup> are measured at fair value, with changes reported in the other comprehensive income component of shareholders' equity. Changes in fair value recognised in equity are charged to the income statement when the investment is sold or impaired.

When investments are not traded in a public market and fair value cannot be reasonably determined, investments are accounted for at cost, adjusted for impairment losses, which may not be reversed<sup>16</sup>.

##### RECEIVABLES

##### AND HELD-TO-MATURITY FINANCIAL ASSETS

Receivables and financial assets to be held to maturity are stated at cost, represented by the fair value of the initial exchanged amount adjusted to take into account direct external costs related to the transaction (e.g. fees of agents or consultants,

etc.). The initial carrying value is then adjusted to take into account capital repayments, devaluations and amortisation of the difference between the reimbursement value and the initial carrying value. Amortisation is carried out on the basis of the effective interest rate computed at initial recognition, which is the rate that exactly discounts the present value of estimated future cash flows to the initial carrying value (i.e. the amortised cost method). Receivables for finance leases are recognised at an amount equal to the present value of the lease payments and the purchase option price or any residual value; the amount is discounted at the interest rate implicit in the lease.

Any impairment is recognised by comparing the carrying value with the present value of the expected cash flows discounted at the effective interest rate computed at initial recognition or at the moment of its updating to reflect the contractually established price (see also 'Current assets'). Receivables and held-to-maturity financial assets are recognised net of the provision for impairment losses. When the impairment loss is definite, the provision is used; otherwise it is released. Changes to the carrying amount of receivables or financial assets arising from amortised cost valuation are recognised as 'Finance income (expenses)'.

#### Assets held for sale and discontinued operations

Non-current assets and current and non-current assets included within disposal groups, whose carrying amount will be recovered principally through a sale transaction rather than through their continuing use, are classified as held for sale. This condition is considered met when the sale is highly probable and the asset or disposal group is available for immediate sale in its current condition. When the sale of a subsidiary is planned and this will lead to loss of control, all of its assets and liabilities are classified as held for sale. This applies whether or not an interest is retained in the former subsidiary after the sale.

Non-current assets held for sale, current and non-current assets included within disposal groups and liabilities directly associated with them are recognised in the balance sheet separately from the entity's other assets and liabilities.

Immediately prior to classification as being held for sale, the assets and liabilities that are part of a group being disposed of are valued according to the accounting standards applicable to them. Subsequently, non-current assets held for sale are not depreciated and are measured at the lower of the fair value less costs to sell and their carrying amount.

The classification of an equity-accounted investment, or of a portion thereof, as held for sale requires the suspension of the application of this

(14) Impairment charges are not reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

(15) For investments in joint ventures and associates, see 'Equity method' above.

(16) Impairment charges are not reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

method of accounting in relation to the entire investment or to the portion thereof. In such cases, the carrying amount is therefore equal to the value deriving from the application of the equity method at the date of reclassification. Any retained portion of the investment that has not been classified as held for sale is accounted for using the equity method until the conclusion of the sale plan. After the disposal takes place, the retained interest is accounted for using the applicable measurement criteria indicated under 'Financial fixed assets - Investments', unless it continues to be accounting for using the equity method.

Any difference between the carrying amount of non-current assets and the fair value less costs to sell is taken to the income statement as an impairment loss; any subsequent reversal is recognised up to the cumulative impairment losses, including those recognised prior to qualification of the asset as held for sale.

Non-current assets and current and non-current assets included within disposal groups and classified as held for sale constitute a discontinued operation if: (i) they represent a separate major line of business or geographical area of operations; (ii) they are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; (iii) they are a subsidiary acquired with a view to resale. Profit or loss of discontinued operations, as well as any gains or losses on their disposal are reported separately in the income statement, net of any tax effects. The results of discontinued operations are also reported in the comparative figures for prior years.

### **Financial liabilities**

Financial liabilities, other than derivative instruments, are initially recognised at the fair value of the amount received, net of direct transaction costs, and are subsequently measured using the amortised cost method (see previous section 'Financial fixed assets - Receivables and held-to-maturity financial assets').

### **Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset in the balance sheet when they can be legally offset in the current year and it is intended to offset on a net basis (i.e. to realise the asset and remove the liability simultaneously).

### **Derecognition of financial assets and liabilities**

Financial assets that have been transferred are derecognised from the balance sheet when the contractual rights to the cash flows from the asset are extinguished or expire or are transferred outright to third parties. Financial liabilities are eliminated when they have been settled, or when the contractual condition has been fulfilled or cancelled or when it has expired.

### **Provisions for contingencies**

Provisions for contingencies concern risks and charges of a definite nature and whose existence is certain or probable but for which at year-end the timing or amount of future expenditure is uncertain. Provisions are recognised when: (i) there is a present obligation, either legal or constructive, as a result of a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; (iii) a reliable estimate can be made of the amount of the obligation. Provisions represent the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the balance sheet date. The amount recognised for onerous contracts is the lower of the cost necessary to fulfil the contract obligations, net of the economic benefits expected to be received under it, and any compensation or penalties arising from failure to fulfil these obligations. Where the effect of the time value of money is material and the payment dates of the obligations can be reliably estimated, the provisions should be discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as 'Finance (expense) income'.

When the liability regards a tangible asset, the provision is stated with a corresponding entry to the asset to which it refers and taken to the income statement through the depreciation process.

The costs that the company expects to bear to carry out restructuring plans are recognised when the company formally defines the plan and the interested parties have developed a valid expectation that the restructuring will occur.

Provisions are periodically updated to show the variations of estimates of costs, production times and actuarial rates. Increases or decreases for changes in estimates for provisions recognised in prior periods are recognised in the same income statement item used to accrue the provision, or, when a liability regards tangible assets, through an entry corresponding to the assets to which they refer, within the limits of the carrying amount. Any excess is taken to the income statement.

In the notes to the consolidated financial statements, the following contingent liabilities are described: (i) possible, but not probable obligations arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company; (ii) present obligations arising from past events whose amount cannot be measured with sufficient reliability or whose settlement will probably not require an outflow of resources embodying economic benefits.

### **Employee benefits**

Employee benefits are the remuneration paid by the company for the work done by the employee or by virtue of the termination of employment.

Post-employment benefit plans, including constructive obligations, are classified as either 'defined contribution plans' or 'defined benefit plans', depending on the economic substance of the plan as derived from its principal terms and conditions. In the first case, the company's obligation, which consists of making payments to the State or to a trust or fund, is determined on the basis of the contributions due.

The liabilities arising from defined benefit plans, net of any plan assets, are determined on the basis of actuarial assumptions and charged on an accruals basis during the employment period required to obtain the benefits.

The net interest, which is recognised in profit or loss, includes the expected return on plan assets and the interest cost. Net interest is determined by applying the discount rate for liabilities to liabilities net of any plan assets. The net interest on defined benefit plans is posted to 'Finance income (expenses)'.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses arising from changes in actuarial assumptions or from experience adjustments and the return on plan assets excluding amounts included in net interest, are recognised in the statement of other comprehensive income. Remeasurements of net defined benefit assets, excluding amounts included in net interest, are also recognised in the statement of other comprehensive income. Remeasurements of net defined benefit liabilities recognised in the equity reserve related to other items of comprehensive income, are not subsequently reclassified to profit or loss.

Long-term benefits obligations are determined by adopting actuarial assumptions. The effects of remeasurement are taken to profit or loss in their entirety.

### Treasury shares

Treasury shares are recorded at cost and as a reduction in equity. Gains or losses from the subsequent sale of treasury shares are recorded as an increase (or decrease) in equity.

### Revenues

The revenues related to contract work-in-progress are recognised on the basis of contractual revenues by reference to the stage of completion of a contract measured on the cost-to-cost basis. Revenues for contract work-in-progress in a foreign currency are recognised at the euro exchange rate on the date when the stage of completion of a contract is measured and accepted by the client. This value is adjusted to take into account exchange differences arising on derivatives that qualify for hedge accounting.

Advances are recognised at the exchange rate on the date of payment.

Requests for additional payments deriving from a change in the scope of the work are included in

the total amount of revenues when it is probable that the client will approve the variation and the relevant amount. Other claims deriving, for example, from additional costs incurred for reasons attributable to the client are included in the total amount of revenues when it is probable that the counterparty will accept them. Work that has not yet been accepted is recognised at the year-end exchange rate.

Revenues associated with sales of products and services, with the exception of contract work-in-progress, are recorded when the significant risks and rewards of ownership pass to the customer or when the transaction can be considered settled and associated revenue can be reliably measured.

Revenues related to partially rendered services are recognised by reference to the stage of completion, providing this can be measured reliably and that there is no significant uncertainty regarding the collectability of the amount and the related costs. Otherwise they are recognised only to the extent of the recoverable costs incurred.

Revenues are stated at the fair value of considerations received or receivable, net of returns, discounts, rebates and bonuses, as well as directly related taxation. Payments received or to be received on behalf of third parties are not considered revenues.

### Expenses

Costs are recognised when the related goods and services are sold, consumed or allocated, or when their future benefits cannot be determined.

Operating lease payments are recognised in the income statement over the length of the contract. Labour costs comprise remuneration paid, provisions made to pension funds, accrued holidays, national insurance and social security contributions in compliance with national contracts of employment and current legislation.

Given their compensatory nature, labour costs also include stock options granted to senior managers. The instruments granted are recorded at fair value on the vesting date, plus any charges borne by the employer (social security contributions and employee termination indemnities) and are not subject to subsequent adjustments. The current portion is calculated pro rata over the vesting period and the co-investment period<sup>17</sup>. The fair value measurement was carried out using the Stochastic and Black & Scholes models, according to the provisions established by the international accounting standards, in particular by IFRS 2.

The fair value pertaining to Group employees is recognised under the item 'Payroll and related costs' as a counter-entry to the item 'Other reserves' of shareholders' equity. The portion relating to the CEO was accounted for in costs for services as a counter-entry in the item 'Other reserves' of shareholders' equity.

*(17) The vesting period is the period between the date of the award and the date on which the shares are assigned. The co-investment period is the two-year period, beginning the first day after the end of the vesting period, applicable only to the beneficiaries identified as strategic resources in order to meet performance conditions.*

The costs for the acquisition of new knowledge or discoveries, the study of products or alternative processes, new techniques or models, the planning and construction of prototypes or any other costs incurred for other scientific research activities or technological development, are generally considered current costs and expensed as incurred. These costs are capitalised (see 'Tangible assets') when they meet the requirements listed under 'Costs of technological development activities'.

Grants related to income are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

### Exchange rate differences

Revenues and costs associated with transactions in currencies other than the functional currency are translated into the functional currency by applying the exchange rate at the date of the transaction.

Monetary assets and liabilities in currencies other than the functional currency are converted by applying the year-end exchange rate. The effect is recognised in the income statement under 'Finance income (expense)'. Non-monetary assets and liabilities denominated in currencies other than the functional currency valued at cost are translated at the exchange rate as at the date of initial recognition. Non-monetary assets that are remeasured at fair value (i.e. at their recoverable amount or realisable value), are translated at the exchange rate applicable on the date of remeasurement.

### Dividends

Dividends are recognised at the date of the general shareholders' meeting in which they were declared, except when the sale of shares before the ex-dividend date is certain.

### Income taxes

Current income taxes are determined on the basis of estimated taxable income. The estimated liability is recognised in 'Income tax payables'. Current income tax assets and liabilities are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets or liabilities are recognised for temporary differences between the carrying amounts and tax bases of assets and liabilities, based on tax rates and tax laws that have been enacted or substantively enacted for future years. Deferred tax assets are recognised when their recovery is considered probable. The recoverability of deferred taxes is considered probable when it is expected that sufficient taxable profit will be available in the periods in which the temporary differences reverse against which deductible temporary differences can be utilised. Similarly, unused tax credits and deferred tax assets on tax losses are recognised to the extent that they can be recovered.

Income tax assets related to uncertain tax positions are recognised when it is probable that they will be recovered.

For temporary differences associated with investments in subsidiaries, associates and joint arrangements, deferred tax liabilities are not recorded if the investor is able to control the timing of the reversal of the temporary difference and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are recorded under non-current assets and liabilities and are offset at single entity level if related to offsettable taxes. The balance of the offset, if positive, is recognised under 'Deferred tax assets' and, if negative, under 'Deferred tax liabilities'.

When the results of transactions are recognised directly in shareholders' equity, current taxes, deferred tax assets and liabilities are also charged to shareholders' equity.

### Derivatives

A derivative is a financial instrument which has the following characteristics: (i) its value changes in response to the changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, a price or rate index, a credit rating or other variable; (ii) it requires no initial net investment or the investment is small; (iii) it is settled at a future date.

Derivatives, including embedded derivatives that are separated from the host contract, are assets or liabilities recognised at their fair value.

Consistently with its business requirements, Saipem classifies derivatives as hedging instruments whenever possible. The fair value of derivative financial instruments incorporates the adjustments that reflect the non-performance risk of the counterparties of the transaction (see next section 'Fair value measurement').

Derivative contracts are classified as hedging instruments when the relationship between the instrument and the hedged item is formally documented and the effectiveness of the hedge, assessed on an ongoing basis, is demonstrated to be high. When derivative contracts cover the risk of changes in the fair value of the hedged item (fair value hedge; e.g. hedging of changes in the fair value of fixed rate assets/liabilities), they are recognised at fair value, with changes taken to the income statement. The values of hedged items are accordingly adjusted to reflect, in the income statement, changes in their fair value attributable to the hedged risk, even where the type of financial instrument in question would require the application of a different measurement criteria.

A cash flow hedge is a hedge of the exposure to variability in cash flows that could affect profit or loss and that is attributable to a particular risk associated with a recognised asset or liability (such as future interest payments on variable rate debt) or a highly probable forecast transaction, such as project income/costs. When derivative contracts hedge the cash flow variation risk of the hedged item (cash flow hedge), the hedges are designated against exposure to variability,

attributable to the risks that may affect the income statement and expected financial flows.

The effective portion of changes in fair value of derivative contracts designated as hedges under IAS 39 is recorded initially in a hedging reserve related to other items of comprehensive income. This reserve is copied in the income statement in the period in which the hedged item occurs.

The ineffective portion of changes in fair value of derivative hedging contracts, as well as the entire change in fair value of those derivatives not designated as hedges or that do not meet the criteria set out in IAS 39, are taken directly to the income statement under 'Financial income (expenses)'.<sup>18</sup>

Changes in the fair value of derivative financial instruments which do not satisfy the conditions for being qualified as hedges are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and foreign currency derivatives contracts are recognised in the income statement under 'Finance income (expense)'; conversely, changes in the fair value of non-hedging commodity derivatives are recognised in the income statement under 'Other operating income (expense)'.

The derivatives embedded in hybrid instruments are separate from the main contract and are recognised separately if the hybrid instrument is overall not measured at fair value with income statement effects being reported and if the characteristics and risks of the derivative are not closely connected to those of the main contract. A check is performed if there are any embedded derivatives to be shown separately at the moment the contract is signed and, subsequently, if any changes are made to the contract conditions that lead to significant changes in the cash flows generated by it.

### Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the 'exit price') in an orderly transaction that is not a forced sale, liquidation sale or a distressed sale between independent, knowledgeable and available market participants at the measurement date.

Fair value is determined based on market conditions at the measurement date and the assumptions that market participants would use (i.e. it is a market-based measurement).

Fair value measurement presupposes that the transaction to sell the asset or transfer the liability occurs in a principal market or, in the absence of a principal market, in the most advantageous market to which the entity has access. It does not consider an entity's intent to sell the asset or transfer the liability.

When the market price is not directly detectable and a price for an identical asset or liability is not detectable, the fair value is calculated by applying

another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Since fair value is a market valuation criterion, it is determined by adopting the assumptions that market participants would use to determine the price of the asset or liability, including assumptions about risks. As a result the intention to hold an asset or settle a liability (or to fulfil otherwise) is not relevant for the purposes of fair value measurement.

Fair value measurements of non-financial assets take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market operator that would use the asset in its highest and best use. The highest and best use is determined from the perspective of market participants, even if the entity intends a different use. An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

In the absence of quoted market prices, the fair value of a financial or non-financial liability or an entity's own equity instruments is taken as the fair value of the corresponding asset held by another market participant at the measurement date.

The fair value of the financial instruments is determined by the 'Credit Valuation Adjustment' or CVA and the risk of non-performance of a liability by the entity (so-called 'Debit Valuation Adjustment' or DVA).

In the absence of quoted market prices, valuation techniques appropriate in the circumstances and for which sufficient data are available are used to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

### Financial statements<sup>18</sup>

Assets and liabilities of the balance sheet are classified as current and non-current. Items of the income statement are presented by nature<sup>19</sup>.

The statement of comprehensive income shows the net result together with income and expenses that are recognised directly in equity in accordance with IFRS.

The statement of changes in shareholders' equity includes profit and loss for the year, transactions with shareholders and other changes in shareholders' equity.

The cash flow statement is prepared using the 'indirect method', whereby net profit is adjusted for the effects of non-cash transactions.

### Changes to accounting criteria

The amendments to accounting standards coming into effect on January 1, 2017 did not have any significant impact on the Saipem financial statements. The following is in all cases a

(18) The structure of the financial statements is the same as that used in the 2016 Annual Report.

(19) Additional information regarding financial instruments, applying the classification required by IFRS, is provided under Note 37 'Guarantees, commitments and risks - Additional information on financial instruments'.

summary of the main changes that are of potential interest to the Group.

With Regulation No. 2017/1989, issued by the European Commission on November 6, 2017, the amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses', already explained in the Annual Report 2016, were approved. The amendments to IAS 12 are effective for annual periods beginning on January 1, 2017. The application of these amendments did not have a significant impact on the Saipem Group as the clarifications concerning the recognition of deferred tax assets for unrealised losses were in line with the method used by the Group to verify the recoverability of deferred tax assets.

With Regulation No. 2017/1990, issued by the European Commission on November 6, 2017, the amendments to IAS 7 'Disclosure Initiative' were approved, which reinforces disclosure requirements in the presence of changes – monetary and otherwise – of financial liabilities. The amendments to IAS 7 are effective for annual periods beginning on January 1, 2017. The required disclosure is included in the Notes to the financial statements (in the context of the analysis of net financial debt, in Note 24 'Long-term debt and current portion of long-term debt') through a table of reconciliation between the initial and final values of finance debt and the net financial position. Monetary and non-monetary variations of financial liabilities are noted, and any related assets, whose cash flows are or will be reflected in the cash flow statement as cash flows from financing activities.

With Regulation No. 2018/182, issued by the European Commission on February 7, 2018, the amendments to IFRS 12 'Disclosure of interest in other entities', contained in the 'Annual Improvements to IFRS Standards 2014-2016 Cycle' have been approved. These amendments specify that when an investment in a subsidiary, joint venture or associated company (or a part of the investment in a joint venture or associated company) is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the provisions of IFRS 5, the participating company is not required to disclose a summary of the economic-financial data for this subsidiary, joint venture or related company in its financial statements. The amendments to IFRS 12 are effective for annual periods beginning on January 1, 2017. The application of these amendments did not have an impact on the Group.

Even the other amendments to accounting standards coming into effect on January 1, 2017 did not have any significant impact.

### Risk management

The main risks that Saipem is facing and actively monitoring and managing are the following:

- (i) the market risk deriving from exposure to fluctuations in interest rates and exchange rates and from exposure to commodity price volatility;

- (ii) the credit risk deriving from the possible default of a counterparty;
- (iii) the liquidity risk deriving from the lack of adequate financial resources to face short-term commitments;
- (iv) the downgrading risk deriving from the possibility of a deterioration in the credit rating assigned by the main rating agencies.

Financial risks are managed in accordance with Guidelines defined by the parent company, with the objective of aligning and coordinating Saipem Group policies on financial risks.

For further details on industrial risks, see the 'Risk management' section in the 'Directors' Report'.

#### (i) Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or commodity prices will adversely affect the value of the Group's financial assets, liabilities or expected future cash flows. Saipem actively manages market risk in accordance with a above-mentioned Guidelines and by procedures that provide a centralised model for conducting financial activities.

##### *Market risk - Exchange rate*

Exchange rate risk derives from the fact that Saipem's operations are conducted in currencies other than the euro and that revenues and/or costs from a significant portion of projects implemented are potentially denominated and settled in non-euro currencies. This impacts on:

- the economic result due to the different countervalue of costs and revenues denominated in foreign currency at the time of their recognition compared to the time when the price conditions were defined and as a result of the conversion and subsequent revaluation of trade or financing receivables/trade payables denominated in foreign currencies;
- the Group's reported results and shareholders' equity, as financial statements of subsidiaries denominated in currencies other than the euro are translated from their functional currency into euro.

The risk management objective of the Saipem Group is the minimisation of the impact deriving from fluctuations in exchange rates on the result for the year.

Saipem does not undertake any hedging activity for risks deriving from the translation of foreign currency denominated profits or assets and liabilities of subsidiaries that prepare financial statements in a currency other than the euro.

Saipem adopts a strategy to reduce exchange rate risk exposure by using derivative contracts. To this end, different types of derivatives (outright and swap in particular) are used. Such derivatives are evaluated at fair value on the basis of market standard evaluation and market prices provided by specialised sources. Planning, coordination and management of this activity at Group level is the responsibility of the Saipem Treasury Department, which closely monitors the correlation between derivatives and their

underlying flows as well as ensuring their correct accounting representation in compliance with the International Financial Reporting Standards (IFRS). An exchange rate sensitivity analysis was performed for those currencies other than euro for which exchange risk exposure in 2017 was highest in order to calculate the effect on the income statement and shareholders' equity of hypothetical positive and negative variations of 10% in the exchange rates.

The sensitivity analysis was carried out in relation to the following financial assets and liabilities expressed in currencies other than the euro:

- exchange rate derivatives;
- trade and other receivables;
- trade and other payables;
- cash and cash equivalents;
- short and long-term financial liabilities.

For exchange rate derivatives, the sensitivity analysis on fair value was conducted by comparing the forward price fixed in the contract with spot rates and interest rate curves corresponding to the relevant contractual maturity dates, on the basis of year-end exchange rates subjected to hypothetical positive and negative changes of 10%, with the resulting effects weighted on the basis of the notional amounts.

The analysis did not examine the effect of exchange rate fluctuations on the measurement

of work in progress because work in progress does not constitute a financial asset under IAS 32. In light of the above, although Saipem adopts a strategy targeted at minimising exposure through the use of various types of derivatives (swaps and outright), it cannot be excluded that exchange rate fluctuations may significantly influence the Group's results and the comparison of results of individual financial years.

A depreciation of the euro compared to other currencies would have produced an overall effect on pre-tax profit of -€56 million (-€148 million at December 31, 2016) and an overall effect on shareholders' equity, before related tax effects, of -€223 million (-€287 million at December 31, 2016).

Appreciation of the euro compared to other currencies would have produced an overall effect on pre-tax profit of €47 million (€148 million at December 31, 2016) and an overall effect on shareholders' equity, before related tax effects, of €214 million (€287 million at December 31, 2016). The increases/decreases with respect to the previous year are essentially due to the performance of exchange rates at maturity dates and to variations in the exposed assets and liabilities.

The table below shows the effects of the above sensitivity analysis on balance sheet and income statement items.

	2016				2017			
	+10%		-10%		+10%		-10%	
	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity
(€ million)								
Derivative financial instruments	(195)	(334)	195	334	(65)	(232)	56	223
Trade and other receivables	129	129	(129)	(129)	92	92	(92)	(92)
Trade and other payables	(104)	(104)	104	104	(100)	(100)	100	100
Cash and cash equivalents	22	22	(22)	(22)	17	17	(17)	(17)
Short-term debt	-	-	-	-	-	-	-	-
Medium/long-term debt	-	-	-	-	-	-	-	-
<b>Total</b>	<b>(148)</b>	<b>(287)</b>	<b>148</b>	<b>287</b>	<b>(56)</b>	<b>(223)</b>	<b>47</b>	<b>214</b>

The sensitivity analysis on trade receivables and payables for the principal currencies were as follows.

(€ million)	Currency	Dec. 31, 2016			Dec. 31, 2017		
		Total	Δ -10%	Δ +10%	Total	Δ -10%	Δ +10%
<b>Receivables</b>							
	USD	1,143	(114)	114	724	(72)	72
	SGD	35	(4)	4	30	(3)	3
	KWD	32	(3)	3	115	(12)	12
	PLN	32	(3)	3	29	(3)	3
	AED	21	(2)	2	3	-	-
	NOK	13	(1)	1	5	(1)	1
	Other currencies	12	(2)	2	11	(1)	1
<b>Total</b>		<b>1,288</b>	<b>(129)</b>	<b>129</b>	<b>917</b>	<b>(92)</b>	<b>92</b>
<b>Payables</b>							
	USD	746	75	(75)	765	77	(77)
	GBP	37	4	(4)	47	5	(5)
	AED	27	3	(3)	29	3	(3)
	SGD	101	10	(10)	84	8	(8)
	NOK	31	3	(3)	18	2	(2)
	JPY	27	3	(3)	11	1	(1)
	AOA	10	1	(1)	14	1	(1)
	KWD	28	3	(3)	14	1	(1)
	PLN	14	1	(1)	6	1	(1)
	Other currencies	22	1	(1)	16	1	(1)
<b>Total</b>		<b>1,043</b>	<b>104</b>	<b>(104)</b>	<b>1,004</b>	<b>100</b>	<b>(100)</b>

#### Market risk - Interest rate

Interest rate fluctuations influence the market value of the company's financial assets and liabilities and the level of net finance expense. The objective of the risk management process is to minimise the interest rate risk in pursuing financial structure objectives defined and approved by the management.

The Finance Department of Saipem assesses, when stipulating variable rate financing, compliance with established objectives, where appropriate, intervenes by managing fluctuations in interest rates Interest Rate Swap (IRS) transactions. Planning, coordination and management of this activity at Group level is the responsibility of the Finance Department of Saipem, which closely monitors the correlation between derivatives and their underlying flows, as well as ensuring their correct accounting representation in compliance with the International Financial Reporting Standards (IFRS). Although Saipem adopts a strategy targeted at minimising its exposure to interest rate risk through the pursuit of financial structure objectives defined, it is not to be excluded that interest rate fluctuations could significantly influence the Group's results and the comparability of the results of individual financial years.

Interest rate derivatives are evaluated by the Finance Department of Saipem at fair value on the basis of standard market evaluation algorithms and market prices provided by specialised sources. To measure sensitivity to interest rate risk a sensitivity analysis was performed. The

analysis calculated the effect on the income statement and shareholders' equity which would result from a positive and negative 100 basis point movement on interest rate levels.

The analysis was performed relating to all relevant financial assets and liabilities exposed to interest rate fluctuations and regarded in particular the following items:

- interest rate derivatives;
- cash and cash equivalents;
- short and long-term financial liabilities.

For derivative financial instruments on interest rates, the sensitivity analysis on fair value was conducted by discounting the contractually expected cash flows with the interest rate curves recorded on the basis of year-end exchange rates, with variations in excess of and less than 100 basis points. With reference to cash and cash equivalents and to variable rate financial liabilities, reference was made to the average exposure for the year and average interest rate for the year. On this basis, a movement of interest rates has been applied in excess of and less than 100 basis points.

A positive variation in interest rates would have produced an overall effect on pre-tax profit of €4 million (-€1 million at December 31, 2016) and an overall effect on shareholders' equity, before related tax effects, of €4 million (€26 million at December 31, 2016). A negative variation in interest rates would have produced an overall effect on pre-tax profit of -€14 million (-€6 million at December 31, 2016) and an overall effect on shareholders' equity, before related tax effects, of -€14 million (-€13 million at December 31, 2016).

The increases/decreases with respect to the previous year are essentially due to the performance of interest rates at maturity dates and to variations in the assets and liabilities

exposed to interest rate fluctuations.

The table below shows the effects of the above sensitivity analysis on balance sheet and income statement items.

(€ million)	2016				2017			
	+100 basis points		-100 basis points		+100 basis points		-100 basis points	
	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Cash and cash equivalents	2	2	(5)	(5)	5	5	(11)	(11)
Derivative financial instruments	1	28	(1)	(8)	3	3	(3)	(3)
Short-term debt	-	-	-	-	-	-	-	-
Medium/long-term debt	(4)	(4)	-	-	(4)	(4)	-	-
<b>Total</b>	<b>(1)</b>	<b>26</b>	<b>(6)</b>	<b>(13)</b>	<b>4</b>	<b>4</b>	<b>(14)</b>	<b>(14)</b>

#### Market risk - Commodity

Saipem's results are affected by changes in the prices of oil products (fuel oil, lubricants, bunker oil, etc.) and raw materials (copper, steel, etc.), since they represent associated costs in the running of vessels, offices and yards and the implementation of projects and investments.

In order to reduce its commodity risk, in addition to adopting solutions at a commercial level, Saipem also uses trades over the counter derivatives (swap and bullet swaps) in particular on the organised ICE, NYMEX and LME markets where the relevant physical commodity market is well correlated to the financial market and is price efficient.

As regards commodity price risk management, derivative instruments on commodities were negotiated by Saipem to hedge underlying contractual commitments. Hedge transactions may also be entered into in relation to future underlying contractual commitments, provided these are highly probable (so-called 'highly probable forecast transactions'). Despite the hedging instruments adopted by the Company to control and manage commodity risks, Saipem cannot guarantee that they will be either efficient or adequate or that in future it will still be able to use such instruments.

Commodity derivatives are evaluated at fair value by the Finance Department of Saipem on the basis of standard market evaluation algorithms and market prices provided by specialised sources.

With regard to commodity risk hedging instruments, a 10% positive variation in the underlying rates would have produced no effect on pre-tax profit, while it would have produced an effect on shareholders' equity, before related tax effects, of €1 million. A 10% negative variation in the underlying rates would have produced no effect on pre-tax profit, while it would have produced an effect on shareholders' equity, before related tax effects, of -€1 million.

The increase (decrease) with respect to the previous year is essentially due to the differences between the prices used in calculating the fair value of the instrument at the two reference dates.

#### (ii) Credit risk

Credit risk represents Saipem's exposure to potential losses deriving from the non-

performance of counterparties. As regards counterparty risk in commercial contracts, credit management is the responsibility of the business units and of specific corporate Finance and Administration departments operating on the basis of standard business partner evaluation and credit worthiness procedures. For counterparty financial risk deriving from the investment of surplus liquidity, from positions in derivative contracts and from physical commodities contracts with financial counterparties, Group companies adopt Guidelines issued by the Finance Department of Saipem in compliance with the centralised treasury model of Saipem. In spite of the measures implemented by the Company in order to avoid concentrations of risk and/or assets and for identifying the parameters and conditions within which hedging instruments can operate it is not possible to exclude the possibility that one of the Group's clients may delay payments, or fail to make payments, within the defined terms and conditions. Any delay or default in payment by the main clients may imply difficulties in the execution and/or completion of projects, or the need to recover costs and expenses through legal action.

#### (iii) Liquidity risk

The evolution of working capital and of financial requirements is strongly influenced by the invoicing time frames for work in progress and the collection of the relevant receivables. Consequently, and despite the fact that the Group has implemented measures targeted at ensuring that adequate levels of working capital and liquidity are maintained, possible delays in the progress of projects and/or in the definition of situations being finalised with clients, may have an impact on the capacity and/or on the time frames for the generation of cash flows.

Liquidity risk is the risk that suitable sources of funding for the Group may not be available (funding liquidity risk), or that the Group is unable to sell its assets on the market place (asset liquidity risk), making it unable to meet its short-term finance requirements and settle obligations. Such a situation would negatively impact the Group's results as it would result in the company incurring higher borrowing expenses to meet its obligations or under the worst of conditions the inability of the company to continue as a going

concern. The objective of the Group's risk management is to create a financial structure which, consistent with business objectives and prescribed limits, can guarantee a level of liquidity in terms of borrowing facilities and committed credit lines sufficient for the entire Group.

At present, through the management of flexible credit lines suitable with business requirements, Saipem believes it has access to funding that is more than adequate and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

The liquidity management policies used have the objective of ensuring both adequate funding to meet short-term requirements and obligations and a sufficient level of operating flexibility to fund Saipem's development plans, while maintaining an adequate finance structure in terms of debt composition and maturity.

Saipem has credit lines and financing sources available to cover its overall financial requirements. Through the transactions carried out on the banking and capital market in the course of 2017, the Group has structured its sources of funding mainly along medium to long term deadlines with an average duration equal to 4.3 as at December 31, 2017.

Specifically, on March 30, 2017, Saipem signed a new line of credit for a total of €260 million, guaranteed by Atradius, the Dutch export credit guarantee agency. This line of credit was used in the course of 2017 for €240 million. In addition to the above, during 2017 Saipem twice issued fixed-rate bonds for €500 million each time, in accordance with its EMTN programme, with

respective expiry dates of April 2022 and January 2025.

Furthermore, during the year, early repayment of the entire amount of €1,600 million of the Term Facility with an original maturity date of December 2020 was made.

At December 31, 2017, Saipem has unused committed credit lines of €1,500 million, to which can be added the availability of cash at the same date of €1,751 million.

In addition to the above, Saipem may use the remaining amount, equivalent to €266 million of the line guaranteed by GIEK for the Company's purchases of equipment and services from Norwegian exporters and the remaining amount of €20 million of the credit line guaranteed by Atradius.

#### (iv) Downgrading risk

S&P Global Ratings assigned Saipem a long term corporate credit rating equal to 'BB+', with a negative outlook; Moody's Investor Services assigned Saipem corporate family rating equal to 'Ba1', with a stable outlook.

Credit ratings influence the ability of the Group to obtain new loans as well as the cost thereof. Consequently, should one or more ratings agencies lower the Company's rating, this could determine a worsening in the conditions for accessing financial markets.

#### Finance, trade and other payables

The following table shows the amounts of payments due. These are mainly financial payables, including interest payments.

(€ million)	Maturity						Total
	2018	2019	2020	2021	2022	After	
Long-term debt	69	432	132	595	581	1,189	2,998
Short-term debt	120	-	-	-	-	-	120
Derivative liabilities	17	1	-	-	-	-	18
<b>Total</b>	<b>206</b>	<b>433</b>	<b>132</b>	<b>595</b>	<b>581</b>	<b>1,189</b>	<b>3,136</b>
Interest on debt	63	72	69	67	51	68	390

The following table shows the due dates of trade and other payables.

(€ million)	Maturity			Total
	2018	2019-2022	After	
Trade payables	2,179	-	-	2,179
Other payables and advances	1,857	-	-	1,857

#### Outstanding contractual obligations

In addition to the financial and trade debt recorded in the balance sheet, the Saipem Group has contractual obligations relating to non-cancellable operating leases whose performance

will entail payments being made in future years. The following table shows undiscounted payments due in future years in relation to outstanding contractual obligations.

(€ million)	Maturity						Total
	2018	2019	2020	2021	2022	After	
Non-cancellable operating leases	110	111	105	76	71	144	617

The table below summarises Saipem's capital expenditure commitments for property, plant and

equipment, for which procurement contracts have been entered into.

	Maturity
	2018
(€ million)	
Committed on major projects	-
Other committed projects	23
<b>Total</b>	<b>23</b>

#### 4 Accounting estimates and significant judgements

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based. Summarised below are those accounting estimates used in the preparation of consolidated financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.

##### REVENUES AND CONTRACT WORK IN PROGRESS

The processes and methods for recognising revenues and evaluating work in progress are based on the estimate of total lifetime revenues and costs of long-term projects, the appreciation of which is influenced by valuation criteria which by their nature imply recourse to the judgement of the directors, specifically with reference to the forecast of costs to complete each project including the estimate of the risks and contractual penalties, where applicable, to the evaluation of contractual changes envisaged or being negotiated and any changes in estimates compared to the previous year. Specifically, contract work in progress includes extra revenues from additional works following modifications to the original contracts if their realisation is probable and the amount can be reliably estimated.

##### IMPAIRMENT OF ASSETS

Impairment losses are recognised if events and changes in circumstances indicate that the carrying amount of assets may not be recoverable. Impairment is recognised in the event of significant permanent changes in the outlook for the market segment in which the asset is used.

Determining as to whether and how much an asset is impaired involves management estimates on complex and highly uncertain factors, such as future market performances, the effects of inflation and technological improvements on operating costs, and the outlook for global or regional market supply and demand conditions.

The amount of an impairment loss is determined by comparing the carrying value of an asset with its recoverable amount (the higher of fair value less costs to sell and value in use calculated as the present value of the future cash flows expected to be derived from the use of the asset net of disposal costs). This verification is carried out at the level of the smallest aggregate of assets (cash generating unit or CGU) that generates incoming and outgoing financial flows that are largely independent from the cash flows generated by other assets or groups of assets and on the basis of which Top Management assesses the profitability of the business. The expected future cash flows for each CGU are based on judgemental assessments by the management on future variables such as prices, costs, demand growth rate and production volumes, considering the information available at the date of the review and are discounted at a rate that reflects the risk that is specific to Saipem's share. Specifically, the processes and methods for assessing and determining the recoverable value of each CGU are based on complex assumptions that by their nature imply recourse to the directors' judgement, in particular with reference to the forecast of future cash flows related to both the flows expected in the four-year Strategic Plan and those in the long term. Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment at the level of the smallest aggregate (cash generating unit) to which goodwill relates. If the carrying amount of the cash generating unit, including goodwill allocated thereto, the excess is recognised as impairment. The impairment loss is first allocated to reduce the carrying amount of goodwill. Any remaining excess is allocated on a pro-rata basis to the carrying value of the useful lives of the other assets with the defined useful life that form the CGU.

##### BUSINESS COMBINATIONS

Accounting for business combinations requires the difference between the purchase price and

the net assets of an acquired business to be allocated to the various assets and liabilities of the acquired business. For most assets and liabilities, the difference is allocated by measuring said assets and liabilities at fair value. Any positive residual difference is recognised as goodwill. Negative residual differences are taken to the income statement. The allocation of the price paid on a provisional basis is subject to revision/update within 12 months following the acquisition, taking into consideration new information on facts and circumstances existing at the date of acquisition. Management uses all available information to make these fair value determinations and, for major business acquisitions, typically engages an independent appraisal firm to assist in the fair value determination of the acquired assets and liabilities. The allocation process, which requires, based on the information available, exercising a complex judgement by Company Management also for the purposes of applying the equity method.

#### CONTINGENCIES

Saipem and some Group companies are part of judicial and administrative proceedings for which they assess the possibility to accrue for contingencies primarily related to litigation and tax issues. The process and methods for assessing the risks associated with these proceedings are based on complex elements that by their nature imply recourse to the judgement of the directors, specifically with reference to the assessment of uncertainties related to forecasting the results of the proceedings, their classification to the funds or liabilities, taking into account the assessment criteria acquired by the internal legal department and by external legal advisers.

Determining appropriate amounts for provisions is a complex estimation process that includes subjective judgements by company management.

#### EMPLOYEE BENEFITS

Post-employment benefit plans arising from defined benefit plans are evaluated with reference to uncertain events and based upon actuarial assumptions including among others discount rates, expected rates of salary increases, mortality rates, retirement dates and medical cost trends.

The significant assumptions used to account for such benefits are determined as follows: (i) discount and inflation rates reflect the rates at which the benefits could be effectively settled. Indicators used in selecting the discount rate include rates of return on high-quality corporate bonds or, where there is no deep market in such bonds, the market yields on government bonds and on inflation rate forecasts of market conditions observed country by country; (ii) the future salary levels of individual employees are determined including an estimate of future changes attributed to general price levels (consistent with inflation rate assumptions),

productivity, seniority and promotion; (iii) medical cost trend assumptions reflect an estimate of the actual future changes in the cost of the healthcare related benefits provided to the plan participants and are based on past and current medical cost trends including healthcare inflation, and changes in health status of the participants; (iv) demographic assumptions such as mortality, disability and turnover reflect the best estimate of these future events for the individual employees involved.

Changes in the net defined benefit liability (asset) related to remeasurements routinely occur and comprise, among other things, changes in actuarial assumptions, experience adjustments (i.e. the effects of differences between the previous actuarial assumptions and what has actually occurred) and the return on plan assets, excluding amounts included in net interest. Remeasurements are recognised in other comprehensive income for defined benefit plans and in profit or loss for long-term plans.

#### REVENUES AND RECEIVABLES

The recoverability of the book value of the receivables and the need to recognise any write-down of the same are the result of a process that involves complex and/or subjective judgements by Company Management. The factors considered in the context of these judgements concern, among other things, the creditworthiness of the counterparty where available, the amount and timing of expected future payments, any credit risk mitigation instruments implemented, as well as any actions set up or planned for debt recovery.

### 5 Recent accounting principles

#### Accounting standards and interpretations issued by IASB/IFRIC and endorsed by the European Union

With Regulation No. 2016/1905, issued by the European Commission on September 22, 2016, IFRS 15 'Revenues from Contracts with Customers', which, as of January 1, 2018, will replace the existing IAS 11 'Construction Contracts' and IAS 18 'Revenue' was approved. Specifically, the new standard requires revenue recognition to be based on the following five steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contracts based on each good or service stand alone selling price; (v) recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 also requires entities to include additional disclosures in their financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with customers. In 2017, operations launched in 2016 to identify potentially critical situations with regard to the

different types of contracts and to assess the potential impact on the budget and on financial reporting were completed.

The new standard substantially confirms the validity of the over-time valuation criterion of the work in progress currently being adopted, based on the cost-to-cost input method. Given the type of business in which Saipem operates, on long-term contracts, as well as in the field of drilling services, the ratification of IFRS 15 entails a possible different recognition of revenues/costs during the years that the contract is ongoing, with reference to:

- (i) identification of possible, distinct performance obligations;
- (ii) recognition over time of revenues and determination of the transaction price;
- (iii) methods and time frames for recognising contractual variations;
- (iv) recognition of some costs for which the new standard requires capitalisation such as pre-engineering costs and costs for preparation of the assets used.

Specifically, implementation of IFRS 15 is estimated to result in a total decrease in shareholders' equity, net of the related tax effect, of €20 million at the date of first application, deriving from the various performance obligations identified in some engineering and construction projects, and the different evaluation of the performance obligations for drilling services. When first applying the new provisions, Saipem will make use of the possibility of recognising the effect connected to the retroactive restatement of the values in shareholders' equity at January 1, 2018, taking into account current circumstances at that date, without restating the previous years being compared.

With Regulation No. 2017/1987, issued by the European Commission on October 31, 2017, the amendments to the standard provided for by the document 'Clarifications to IFRS 15 Revenue from Contracts with Customers', which made some technical changes and additions to IFRS 15, were approved introducing some examples in order to facilitate their application. The amendments to IFRS 15 are effective for annual periods beginning on or after January 1, 2018.

With Regulation No. 2016/2067, issued by the European Commission on November 22, 2016, the amendments to IFRS 9 'Financial Instruments', which, as of January 1, 2018, will replace the current IAS 39 'Financial Instruments: Recognition and Measurement' were approved. The new provisions of IFRS 9: (i) change the classification and measurement model for financial assets basing it on the characteristics of the financial instrument and the business model adopted by the company; (ii) introduce a new impairment model for financial assets that addresses expected credit losses; and (iii) bring in new hedge accounting requirements.

In 2017, the project, that began in 2016, to evaluate the potential impact arising from the

application of the new standard and to define the information to be produced in the explanatory notes to the financial statements with reference to the planned upgrading was completed. The following impacts are reported with reference to the three areas that need action affected by the new provisions:

- (i) classification and evaluation: the new method for classifying and evaluating financial assets that represent debt instruments does not entail significant changes. The implementation of the tests prescribed by the new standard (SPPI and Business Model) produced results consistent with the previous classification and evaluation methodology with regard to financial assets adopted by Saipem. The financial assets previously classified as held to maturity are in fact valued, in accordance with the underlying 'Hold-to-collect' Business Model applied to them, at amortised cost. The assets previously classified as available for sale, consistent with the underlying 'Hold-to-collect-and-sell' Business Model applied to them, continue to be measured at fair value with the recognition of effects in the shareholders' equity reserve relating to the other components of the other items of comprehensive income. Lastly, for the assets recorded as held for trading, the fair value measurement is retained with the effects posted to the income statement in accordance with the underlying 'Hold-to-sell' Business Model applied to them. With regard to financial assets, that represent an interest that is different from controlling interest, joint control or influence, which were valued at fair value with the recognition of effects in the shareholders' equity reserve until their write-down and/or maturity which is when the effects passed to the income statement, for the instruments in the portfolio at the closing date of the financial statements the Group decided to avail itself of irrevocable election connected to the measurement of these instruments at fair value with the recognition of the effects in the shareholders' equity reserve without possibility of recycling. Since this irrevocable election is applicable on the basis of the single instrument assessed, and not by the class of similar instruments, these assessments will be reconsidered for future instruments representing non-controlling interest other than controlling interest, joint control and influence. Finally, with regard to financial liabilities, since the classification and measurement criteria have not been substantially changed, they have maintained the same classification and measurement previously adopted;
- (ii) impairment: the management model adopted by the Group envisages the simplified approach for trade receivables which do not contain a significant financial component, which requires the valuation of the provision for the coverage of losses for an amount equal to the expected losses over the entire

life of the loan. This approach uses the probability of client default based on observable market data and on valuations collected by info providers for the quantification of expected losses. Given the specificity of the business in which Saipem operates, mainly on long-term contracts with continuously updated valuation over the project's life and with a limited client pool made up mostly of Major Oil Companies, provisions for impairment losses are made after careful analysis of individual receivables due which in fact, already takes into account a prospective project view. With the adoption of the new standard, there is also an evaluation of the customer's creditworthiness, which therefore does not have a significant impact. The three-stage management model was instead adopted for the impairment test of financial assets measured at fair value with the recognition of the effects in the shareholders' equity reserve;

- (iii) hedge accounting: the management model currently adopted by the Group can be considered in line with the new provisions introduced by IFRS 9 regarding hedge accounting. The analysis carried out by a dedicated work group in 2017, aimed at identifying optimisation in hedge accounting strategies also in light of the new features and simplifications introduced by the new standard, ended with a plan to update the current management model, whose activities will engage the Group throughout 2018. Therefore, at this moment it is foreseeable that 2018 will progress in continuity with the old management model, while the new model identified will be fully adopted by the Group starting from January 1, 2019.

When first applying the new provisions, in consideration of the complexity of restatement of values at the beginning of the first financial year presented without the use of elements known thereafter, Saipem will make use of the possibility of recognising the effect connected to the retroactive restatement of the values in shareholders' equity at January 1, 2018, taking into account current circumstances at that date, without restating the previous years being compared. At the date of these financial statements, the effect of the impacts described above deriving from the adoption of IFRS 9 is estimated to result in a decrease in shareholders' equity of €28 million, net of the related tax effect, referable to the greater write-downs of financial assets due to the adoption of the expected loss model mostly for trade receivables.

With European Commission Regulation No. 2017/2395, issued on December 12, 2017, changes were made to Regulation No. 575/2013 regarding the transitional provisions aimed at mitigating the impact of the introduction of IFRS 9 on capital resources and for the processing of large public sector exposures denominated in the national currency of a Member State.

With European Commission Regulation No. 2017/1986, issued on October 31, 2017, the IFRS 16 'Leases' was approved. It defines the criteria for recognition, valuation, presentation in the financial statements and additional information on leasing contracts.

IFRS 16 replaces IAS 17 and its interpretation and defines leasing as a contract that provides the lessee with the right to use an asset for a certain period of time in exchange for a payment.

It presents new provisions regarding the adoption of a single model for the recognition in the financial statements of leasing contracts for lessees, with recognition in the balance sheet of right-of-use and lease liability representing the obligation to pay future lease payments. It eliminates the classification of leases as operating or financial, with limited exceptions to the application of accounting currently envisaged for operating leases (recognition of leasing fees in the income statement on an accrual basis). Conversely, no significant changes are envisaged for the lessor's financial statements and the distinction between operating and financial leases is maintained.

The provisions of IFRS 16 are effective starting from January 1, 2019. Application of the principle will be retroactive, with the possibility of recognising the effect on shareholders' equity as at January 1, 2019, taking into account current circumstances at that date.

In 2017, the analysis launched in 2016 continued, aimed at identifying potential critical aspects of contracts in the area, assessing potential impacts on the financial statements and verifying any adjustments to the financial reporting support systems in order to ensure the correct and timely recovery of management data and accounting values. The contracts for which there is the expectancy of a significant increase in the rights to use the assets and a corresponding increase in financial liabilities are those relating to the lease of vessels and work and construction equipment used in the projects, in addition to property leases. The application of the new standard is expected to have significant impact on the balance sheet and income statement as a result of:

- (i) an increase in fixed assets for the right to use assets listed under assets and the corresponding financial payables under liabilities;
- (ii) an increase of the EBITDA, and to a lesser extent of the EBIT, due to the reduction in leasing fees currently included in operating costs, and a simultaneous increase in financial expenses;
- (iii) an impact on the net financial position, deriving from the increase in financial liabilities for lease debts.

Finally, the application of the standard will result in a different representation of the items in question within the cash flow statement and the presentation, in the explanatory notes to the financial statements, of the changes related to leasing contracts whose cash flows are or will be

recognised in the future in the cash flow statement as cash flows from financing activities.

With European Commission Regulation No. 2018/182, issued on February 7, 2018, the document 'Annual Improvements to IFRS Standards 2014-2016 Cycle' was approved, containing amendments, mainly technical and editorial, to IAS 28 international accounting standards. 'Investments in associates and joint ventures' and IFRS 1 'First-time adoption of International Financial Reporting Standards'.

The amendments to IAS 28 and IFRS 1 are effective for annual periods beginning on or after January 1, 2018.

### **Accounting standards and interpretations issued by IASB/IFRIC and not yet endorsed by the European Commission**

On June 20, 2016, the IASB published the document 'Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions', with the aim of clarifying the classification and accounting of several types of transaction with payment based on shares. The amendments to IFRS 2 are effective for annual periods beginning on or after January 1, 2018.

On 8 December 2016, the IASB issued the IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration', on the basis of which the exchange rate to be used in the initial recognition of an asset, expense or income related to an advance, previously paid/received, in foreign currency, is that in force at the date of recognition of the non-monetary asset/liability associated with said advance.

IFRIC 22 provisions are effective for annual periods beginning on or after January 1, 2018.

On May 18, 2017, the IASB issued IFRS 17 'Insurance Contracts' defining the accounting treatment of insurance contracts issued and reinsurance contracts held. The provisions of IFRS 17, which go beyond those currently provided by IFRS 4 'Insurance Contracts', are effective for annual periods beginning on or after January 1, 2021.

On June 7, 2017, the IASB issued IFRIC 23 'Uncertainty Over Income Tax Treatments' which provides indications on how to consider the uncertainties on certain conduct followed by the

entity in applying tax legislation (for example, conduct adopted for this issue) of transfer prices that could be challenged by the tax authorities, or uncertainties regarding the period of deduction of tax depreciation of certain assets). The likelihood of the tax authorities accepting the entity's conduct and whether to consider the uncertainty in itself or in relation to the general tax burden of the entity should be verified.

IFRIC 23 provisions are effective for annual periods beginning on or after January 1, 2019.

On October 12, 2017, the IASB issued amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures', aimed at clarifying that the provisions of IFRS 9, including those relating to impairment, also apply to the financial instrument assets representing long-term interests in an associate or joint venture which, in substance, form part of the net investment in the associated company or joint venture (so-called long-term interest).

The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2019.

On December 12, 2017, the IASB issued the document 'Annual Improvements to IFRS Standards 2015-2017 Cycle' containing amendments, mainly of a technical and editorial nature, of the international accounting standards IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes' and IAS 23 'Borrowing Costs'.

The amendments are effective for annual periods beginning on or after January 1, 2019.

On February 7, 2018, the IASB issued amendments to IAS 19 'Plan Amendment, Curtailment or Settlement', aimed essentially at requiring the use of up-to-date actuarial assumptions in determining the cost related to service costs and net interest for the period following a modification, reduction or termination of an existing defined benefit plan.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2019.

Saipem is currently analysing the principles indicated and evaluating any impact they may have on the financial statements when implemented.

## 6 Scope of consolidation at December 31, 2017

### Parent company

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle
Saipem SpA	San Donato Milanese	EUR	2,191,384,693	Eni SpA	30.54		
				CDP Equity SpA (formerly Fondo Strategico Italiano)	12.55		
				Saipem SpA	1.48		
				Third parties	55.43		

### Subsidiaries

#### Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle
Denuke Scarl	San Donato Milanese	EUR	10,000	Saipem SpA	55.00	55.00	F.C.
				Third parties	45.00		
INFRA SpA	San Donato Milanese	EUR	50,000	Saipem SpA	100.00	100.00	F.C.
Servizi Energia Italia SpA	San Donato Milanese	EUR	291,000	Saipem SpA	100.00	100.00	F.C.
Smacemex Scarl	San Donato Milanese	EUR	10,000	Saipem SpA	60.00	60.00	F.C.
				Third parties	40.00		
SnamprogettiChiyoda sas di Saipem SpA	San Donato Milanese	EUR	10,000	Saipem SpA	99.90	99.90	F.C.
				Third parties	0.10		

#### Outside Italy

Andromeda Consultoria Tecnica e Representações Ltda	Rio de Janeiro (Brazil)	BRL	9,494,210	Saipem SpA	99.00	100.00	F.C.
				Snamprogetti Netherlands BV	1.00		
Boscongo SA	Pointe-Noire (Congo)	XAF	1,597,805,000	Saipem SA	100.00	100.00	F.C.
ER SAI Caspian Contractor Llc	Almaty (Kazakhstan)	KZT	1,105,930,000	Saipem International BV	50.00	50.00	F.C.
				Third parties	50.00		
ERS - Equipment Rental & Services BV	Amsterdam (Netherlands)	EUR	90,760	Saipem International BV	100.00	100.00	F.C.
Global Petroprojects Services AG	Zurich (Switzerland)	CHF	5,000,000	Saipem International BV	100.00	100.00	F.C.
Moss Maritime AS	Lysaker (Norway)	NOK	40,000,000	Saipem International BV	100.00	100.00	F.C.
North Caspian Service Co	Almaty (Kazakhstan)	KZT	1,910,000,000	Saipem International BV	100.00	100.00	F.C.
Petrex SA	Iquitos (Peru)	PEN	1,842,229,045	Saipem International BV	100.00	100.00	F.C.
Professional Training Center Llc	Karakiyon District, Mangistau Oblast (Kazakhstan)	KZT	1,000,000	ER SAI Caspian Contractor Llc	100.00	50.00	F.C.
PT Saipem Indonesia	Jakarta (Indonesia)	USD	372,778,100	Saipem International BV	99.99	99.99	F.C.
				Third parties	0.01		
SAGIO - Companhia Angolana de Gestão de Instalação Offshore Ltda (**)	Luanda (Angola)	AOA	1,600,000	Saipem International BV	60.00	60.00	E.M.
				Third parties	40.00		

(\*) F.C. = full consolidation, W.I. = working interest, E.M. = equity method, Co. = cost method

(\*\*) In liquidation.

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle (*)
<b>Saigut SA de Cv</b>	Delegacion Cuauhtemoc (Mexico)	MXN	998.259,500	Saimexicana SA de Cv	100.00	100.00	F.C.
<b>SAIMEP Lda</b>	Maputo (Mozambique)	MZN	70,000,000	Saipem SA Saipem International BV	99.98 0.02	100.00	F.C.
<b>Saimexicana SA de Cv</b>	Delegacion Cuauhtemoc (Mexico)	MXN	5,341,669,200	Saipem SA	100.00	100.00	F.C.
<b>Saipem (Beijing) Technical Services Co Ltd</b>	Beijing (China)	USD	1,750,000	Saipem International BV	100.00	100.00	F.C.
<b>Saipem (Malaysia) Sdn Bhd</b>	Kuala Lumpur (Malaysia)	MYR	1,033,500	Saipem International BV Third parties	41.94 58.06	100.00	F.C.
<b>Saipem (Nigeria) Ltd</b>	Lagos (Nigeria)	NGN	259,200,000	Saipem International BV Third parties	89.41 10.59	89.41	F.C.
<b>Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda</b>	Canical (Portugal)	EUR	299,278,738	Saipem International BV	100.00	100.00	F.C.
<b>Saipem America Inc</b>	Wilmington (USA)	USD	1,000	Saipem International BV	100.00	100.00	F.C.
<b>Saipem Argentina de Perforaciones, Montajes y Proyectos Sociedad Anónima, Minera, Industrial, Comercial y Financiera (**)(***)</b>	Buenos Aires (Argentina)	ARS	1,805,300	Saipem International BV Third parties	99.90 0.10	99.90	E.M.
<b>Saipem Asia Sdn Bhd</b>	Kuala Lumpur (Malaysia)	MYR	8,116,500	Saipem International BV	100.00	100.00	F.C.
<b>Saipem Australia Pty Ltd</b>	West Perth (Australia)	AUD	566,800,001	Saipem International BV	100.00	100.00	F.C.
<b>Saipem Canada Inc</b>	Montreal (Canada)	CAD	100,100	Saipem International BV	100.00	100.00	F.C.
<b>Saipem Contracting Algérie SpA</b>	Algeri (Algeria)	DZD	1,556,435,000	Sofresid SA	100.00	100.00	F.C.
<b>Saipem Contracting Netherlands BV</b>	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV	100.00	100.00	F.C.
<b>Saipem Contracting Nigeria Ltd</b>	Lagos (Nigeria)	NGN	827,000,000	Saipem International BV Third parties	97.94 2.06	97.94	F.C.
<b>Saipem do Brasil Serviços de Petróleo Ltda</b>	Rio de Janeiro (Brazil)	BRL	1,950,796,299	Saipem International BV	100.00	100.00	F.C.
<b>Saipem Drilling Llc</b>	Moscow (Russia)	RUB	10,000	Saipem International BV	100.00	100.00	F.C.
<b>Saipem Drilling Norway AS</b>	Sola (Norway)	NOK	100,000	Saipem International BV	100.00	100.00	F.C.
<b>Saipem East Africa Ltd</b>	Kampala (Uganda)	UGX	50,000,000	Saipem International BV Snamprogetti Netherlands BV	51.00 49.00	100.00	E.M.
<b>Saipem Finance International BV</b>	Amsterdam (Netherlands)	EUR	1,000,000	Saipem International BV Saipem SpA	75.00 25.00	100.00	F.C.
<b>Saipem India Projects Private Ltd</b>	Chennai (India)	INR	407,000,000	Saipem SA	100.00	100.00	F.C.
<b>Saipem Ingenieria Y Construcciones SLU</b>	Madrid (Spain)	EUR	80,000	Saipem International BV	100.00	100.00	F.C.
<b>Saipem International BV</b>	Amsterdam (Netherlands)	EUR	172,444,000	Saipem SpA	100.00	100.00	F.C.
<b>Saipem Libya LLC - SA.LI.CO. Llc (**)</b>	Tripoli (Libya)	LYD	10,000,000	Saipem International BV Snamprogetti Netherlands BV	60.00 40.00	100.00	F.C.
<b>Saipem Ltd</b>	Kingston upon Thames Surrey (United Kingdom)	EUR	7,500,000	Saipem International BV	100.00	100.00	F.C.

(\*) F.C. = full consolidation, W.I. = working interest, E.M. = equity method, Co. = cost method

(\*\*) In liquidation.

(\*\*\*) Inactive throughout the year.

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or liquidation or insolvency principle
<b>Saipem Luxembourg SA</b>	Luxembourg (Luxembourg)	EUR	31,002	Saipem Maritime Asset Management Luxembourg Sàrl Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	99.99 0.01	100.00	F.C.
<b>Saipem Maritime Asset Management Luxembourg Sàrl</b>	Luxembourg (Luxembourg)	USD	378,000	Saipem SpA	100.00	100.00	F.C.
<b>Saipem Misr for Petroleum Services (S.A.E.)</b>	Port Said (Egypt)	EUR	2,000,000	Saipem International BV ERS - Equipment Rental & Services BV Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	99.92 0.04 0.04	100.00	F.C.
<b>Saipem Norge AS</b>	Sola (Norway)	NOK	100,000	Saipem International BV	100.00	100.00	F.C.
<b>Saipem Offshore Norway AS</b>	Sola (Norway)	NOK	120,000	Saipem SpA	100.00	100.00	F.C.
<b>Saipem Romania Srl</b>	Bucharest (Romania)	RON	29,004,600	Snamprogetti Netherlands BV Saipem International BV	99.00 1.00	100.00	F.C.
<b>Saipem SA</b>	Montigny le Bretonneux (France)	EUR	481,337,452	Saipem SpA	100.00	100.00	F.C.
<b>Saipem Services México SA de Cv</b>	Delegacion Cuauhtemoc (Mexico)	MXN	50,000	Saimexicana SA de Cv	100.00	100.00	F.C.
<b>Saipem Singapore Pte Ltd</b>	Singapore (Singapore)	SGD	28,890,000	Saipem SA	100.00	100.00	F.C.
<b>Saiwest Ltd</b>	Accra (Ghana)	GHS	937,500	Saipem SA Third parties	49.00 51.00	49.00	F.C.
<b>Sajer Iraq Co for Petroleum Services, Trading, General Contracting &amp; Transport Llc</b>	Baghdad (Iraq)	IQD	300,000,000	Saipem International BV Third parties	60.00 40.00	60.00	F.C.
<b>Saudi Arabian Saipem Ltd</b>	Al-Khobar (Saudi Arabia)	SAR	5,000,000	Saipem International BV Third parties	60.00 40.00	60.00	F.C.
<b>Sigurd Rück AG</b>	Zurich (Switzerland)	CHF	25,000,000	Saipem International BV	100.00	100.00	F.C.
<b>Snamprogetti Engineering &amp; Contracting Co Ltd</b>	Al-Khobar (Saudi Arabia)	SAR	10,000,000	Snamprogetti Netherlands BV Third parties	70.00 30.00	70.00	F.C.
<b>Snamprogetti Engineering BV</b>	Schiedam (Netherlands)	EUR	18,151	Saipem Maritime Asset Management Luxembourg Sàrl	100.00	100.00	F.C.
<b>Snamprogetti Lummus Gas Ltd (**)</b>	Sliema (Malta)	EUR	50,000	Snamprogetti Netherlands BV Third parties	99.00 1.00	99.00	Co.
<b>Snamprogetti Netherlands BV</b>	Amsterdam (Netherlands)	EUR	203,000	Saipem SpA	100.00	100.00	F.C.
<b>Snamprogetti Saudi Arabia Co Ltd Llc</b>	Al-Khobar (Saudi Arabia)	SAR	10,000,000	Saipem International BV Snamprogetti Netherlands BV	95.00 5.00	100.00	F.C.
<b>Sofresid Engineering SA</b>	Montigny le Bretonneux (France)	EUR	1,267,143	Sofresid SA Third parties	99.99 0.01	100.00	F.C.
<b>Sofresid SA</b>	Montigny le Bretonneux (France)	EUR	312,253,842	Saipem SA	100.00	100.00	F.C.
<b>Sonsub International Pty Ltd</b>	West Perth (Australia)	AUD	13,157,570	Saipem Australia Pty Ltd	100.00	100.00	F.C.

(\*) F.C. = full consolidation, W.I. = working interest, E.M. = equity method, Co. = cost method

(\*\*) In liquidation.

## Associates and jointly controlled companies

### Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or valuation principle <sup>(*)</sup>
<b>ASG Scarl</b>	San Donato Milanese	EUR	50,864	Saipem SpA Third parties	55.41 44.59	55.41	E.M.
<b>CEPAV (Consorzio Eni per l'Alta Velocità) Due</b>	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	52.00 48.00	52.00	E.M.
<b>CEPAV (Consorzio Eni per l'Alta Velocità) Uno</b>	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	50.36 49.64	50.36	E.M.
<b>Consorzio F.S.B.</b>	Venice - Marghera	EUR	15,000	Saipem SpA Third parties	29.10 70.90	29.10	Co.
<b>Consorzio Sapro</b>	San Giovanni Teatino	EUR	10,329	Saipem SpA Third parties	51.00 49.00	51.00	Co.
<b>Rodano Consortile Scarl</b>	San Donato Milanese	EUR	250,000	Saipem SpA Third parties	53.57 46.43	53.57	E.M.
<b>Rosetti Marino SpA</b>	Ravenna	EUR	4,000,000	Saipem SA Third parties	20.00 80.00	20.00	E.M.
<b>Ship Recycling Scarl<sup>(**)</sup></b>	Genoa	EUR	10,000	Saipem SpA Third parties	51.00 49.00	51.00	W.I.

### Outside Italy

<b>O2 Pearl Snc</b>	Montigny le Bretonneux (France)	EUR	1,000	Saipem SA Third parties	50.00 50.00	50.00	E.M.
<b>CCS LNG Mozambique Lda<sup>(***)</sup></b>	Maputo (Mozambique)	MZN	150,000	Saipem International BV Third parties	33.33 66.67	33.33	E.M.
<b>CCS Netherlands BV<sup>(***)</sup></b>	Amsterdam (Netherlands)	EUR	300,000	Saipem International BV Third parties	33.33 66.67	33.33	E.M.
<b>Charville - Consultores e Serviços Lda</b>	Funchal (Portugal)	EUR	5,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
<b>CMS&amp;A Wll<sup>(**)</sup></b>	Doha (Qatar)	QAR	500,000	Snamprogetti Netherlands BV Third parties	20.00 80.00	50.00	E.M.
<b>Hazira Cryogenic Engineering &amp; Construction Management Private Ltd</b>	Mumbai (India)	INR	500,000	Saipem SA Third parties	55.00 45.00	55.00	E.M.
<b>KWANDA Suporte Logistico Lda</b>	Luanda (Angola)	AOA	25,510,204	Saipem SA Third parties	40.00 60.00	40.00	E.M.
<b>Mangrove Gas Netherlands BV</b>	Amsterdam (Netherlands)	EUR	2,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
<b>Petromar Lda</b>	Luanda (Angola)	USD	357,143	Saipem SA Third parties	70.00 30.00	70.00	E.M.
<b>Sabella SAS</b>	Quimper (France)	EUR	8,596,830	Sofresid Engineering SA Third parties	13.50 86.50	13.50	E.M.
<b>SaiPar Drilling Co BV</b>	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
<b>Saipem Dangote E&amp;C Ltd<sup>(****)</sup></b>	Victoria Island - Lagos (Nigeria)	NGN	100,000,000	Saipem International BV Third parties	49.00 51.00	49.00	E.M.
<b>Saipem Taqa Al Rushaid Fabricators Co Ltd</b>	Dammam (Saudi Arabia)	SAR	40,000,000	Saipem International BV Third parties	40.00 60.00	40.00	E.M.
<b>Saipon Snc</b>	Montigny le Bretonneux (France)	EUR	20,000	Saipem SA Third parties	60.00 40.00	60.00	W.I.
<b>Sairus Llc</b>	Krasnodar (Russia)	RUB	83,603,800	Saipem International BV Third parties	50.00 50.00	50.00	E.M.

(\*) F.C. = full consolidation, W.I. = working interest, E.M. = equity method, Co. = cost method

(\*\*) In liquidation.

(\*\*\*) Inactive throughout the year.

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle (1)
<b>Société pour la Réalisation du Port de Tanger Méditerranée</b>	Anjra (Morocco)	EUR	33,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
<b>Southern Gas Constructors Ltd</b>	Lagos (Nigeria)	NGN	10,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
<b>SPF - TKP Omifpro Snc (**)</b>	Paris (France)	EUR	50,000	Saipem SA Third parties	50.00 50.00	50.00	E.M.
<b>Sud-Soyo Urban Development Lda (***)</b>	Soyo (Angola)	AOA	20,000,000	Saipem SA Third parties	49.00 51.00	49.00	E.M.
<b>Tecnoprojecto Internacional Projectos e Realizações Industriais SA</b>	Porto Salvo - Concelho de Oeiras (Portugal)	EUR	700,000	Saipem SA Third parties	42.50 57.50	42.50	E.M.
<b>T.C.P.I. Angola Tecnoprojecto Internacional SA</b>	Luanda (Angola)	AOA	9,000,000	Petromar Lda Third parties	35.00 65.00	24.50	E.M.
<b>TMBYS SAS</b>	Guyancourt (France)	EUR	30,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
<b>TSGI Mühendislik İnşaat Ltd Şirketi</b>	Istanbul (Turkey)	TRY	286,099,950	Saipem Ingenieria Y Construcciones SLU Third parties	33.33 66.67	33.33	E.M.
<b>TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda</b>	Funchal (Portugal)	EUR	5,000	TSKJ - Serviços de Engenharia Lda	100.00	25.00	E.M.
<b>TSKJ - Nigeria Ltd</b>	Lagos (Nigeria)	NGN	50,000,000	TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	100.00	25.00	E.M.
<b>TSKJ - Serviços de Engenharia Lda</b>	Funchal (Portugal)	EUR	5,000	Snamprogetti Netherlands BV Third parties	25.00 75.00	25.00	E.M.
<b>Xodus Subsea Ltd</b>	London (United Kingdom)	GBP	1,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.

The Saipem Group comprises 97 companies: 58 are consolidated using the full consolidation method, 2 using the working interest method, 34 using the equity method and 3 using the cost method.

At December 31, 2017, the companies of Saipem SpA can be broken down as follows:

	Controlled companies			Associate and jointly controlled companies		
	Italy	Outside Italy	Total	Italy	Outside Italy	Total
<b>Subsidiaries/JO and their participating interests</b>	<b>5</b>	<b>53</b>	<b>58</b>	<b>1</b>	<b>1</b>	<b>2</b>
Companies consolidated using the full consolidation method	5	53	58	-	-	-
Companies consolidated using the working interest method	-	-	-	1	1	2
<b>Participating interests held by consolidated companies <sup>(1)</sup></b>	<b>-</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>26</b>	<b>33</b>
Accounted for using the equity method	-	3	3	5	26	31
Accounted for using the cost method	-	1	1	2	-	2
<b>Total companies</b>	<b>5</b>	<b>57</b>	<b>62</b>	<b>8</b>	<b>27</b>	<b>35</b>

(1) The participating interests held by subsidiaries and joint operations accounted for using the equity method and the cost method concern non-material entities and entities whose consolidation would not have a material impact.

(\*) F.C. = full consolidation, W.I. = working interest, E.M. = equity method, Co. = cost method

(\*\*) In liquidation.

(\*\*\*) Inactive throughout the year.

## Changes in the scope of consolidation

There were no significant changes in the scope of consolidation during 2017 with respect to the consolidated financial statements at December 31, 2016. Changes are shown by order of occurrence.

New incorporations, disposals, liquidations, mergers and changes to the consolidation method:

- **Snamprogetti Lummus Gas Ltd**, previously consolidated using the full consolidation method, has been evaluated using the cost method due to non-operation;
- **Modena Scarl**, previously accounted for using the equity method, was removed from the Register of Companies;
- **CSC Japan Godo Kaisha**, previously accounted for using the equity method, was removed from the Register of Companies;
- **Saidel Ltd**, previously accounted for using the equity method, was sold to third parties;
- **Saipem Ukraine Llc**, previously consolidated using the full consolidation method and since January 01, 2017 using the cost method, has been removed from the Register of Companies;
- **Saipem Drilling Llc** with registered offices in Russia, was incorporated and consolidated using the full consolidation method;
- **CFSW LNG Constructors GP Inc**, previously accounted for using the equity method, was removed from the Register of Companies;
- **Saipem Asia Sdn Bhd** transferred 31.44% of PT Saipem Indonesia shares to Saipem International BV and 0.01% to a third party;
- **Saiwest Ltd**, previously accounted for using the cost method, was consolidated using the full consolidation method with the functional currency US Dollar;
- **SAGIO - Companhia Angolana de Gestão de Instalação Offshore Ltda**, accounted for using the equity method, was placed into liquidation;
- **Saipem Libya LLC - SA.LI.CO. Llc**, consolidated using the full consolidation method, was placed into liquidation;
- **CMS&A Wll**, accounted for using the equity method, was placed into liquidation;
- **SPF - TKP Omifpro Snc**, accounted for using the equity method, was placed into liquidation;
- **Ship Recycling Scarl**, consolidated using the working interest method, was placed into liquidation;
- **CSFLNG Netherlands BV**, previously accounted for using the equity method, was placed into liquidation and was removed from the Register of Companies;
- **Snamprogetti Netherlands BV** purchased 49% of Saipem East Africa Ltd shares from a third party;
- **Saipem Drilling Co Private Ltd**, previously consolidated using the full consolidation method, was merged by incorporation into Saipem India Projects Private Ltd;
- **Saipem Contracting Prep SA**, consolidated using the full consolidation method, has changed its name to IMW Panama SA and was subsequently sold to a third party;
- **International Maritime Works SAS**, with registered offices in France, was incorporated and was subsequently sold to a third party.

Changes of company names or transfers of holdings between Group companies not affecting the scope of consolidation:

- **Snamprogetti Romania Srl**, consolidated using the full consolidation method, has changed its name to Saipem Romania Srl;
- following a capital increase, ownership of **TSGI Mühendislik İnşaat Ltd Şirketi**, is as follows: 33.33% held by Saipem Ingegneria Y Construcciones SLU and 66.67% by third parties.

Changes in functional currencies:

- **Professional Training Center Llc** changed its functional currency from the US Dollar to the Kazakhstani Tenge as of January 1, 2017;
- **Saipem Contracting Nigeria Ltd** changed its functional currency from the Nigerian Naira to the US Dollar as of January 1, 2017.

## CURRENT ASSETS

### 7 Cash and cash equivalents

Cash and cash equivalents amounted to €1,751 million, a decrease of €141 million compared with December 31, 2016 (€1,892 million).

Cash and cash equivalents at the end of the year, denominated in euros for 74%, US dollars for 9% and other currencies for 17%, received an average interest rate of 0.30%. Cash and cash equivalents included cash and cash on hand of €2 million (the same amount as at December 31, 2016).

Funds in two current accounts held by the subsidiary Saipem Contracting Algérie SpA (equivalent to €70 million at December 31, 2017) have been frozen since February 2010. The effectiveness of the ruling issued in 2016 that ordered Saipem to make these accounts available has been suspended following the appeal of the same judgement to the Supreme Court. Compared with December 31, 2016 (equivalent of €83 million) the €13 million decrease in the frozen amount is due to exchange-rate differences (for further details, see the section 'Legal disputes - Algeria - Proceedings in Algeria', as well as Note 53 'Additional information: Algeria').

Furthermore, the equivalent of €7 million spread over the account of a foreign branch of Saipem SpA as well as funds in time deposits belonging to foreign subsidiaries, has been temporarily frozen due to legal actions with some suppliers.

The breakdown of cash and cash equivalents of Saipem SpA and other Group companies at December 31, 2017 by geographical area (based on the country of domicile of the relevant company) was as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Italy	639	1,215
Rest of Europe	227	133
CIS	554	22
Middle East	281	89
Far East	57	57
North Africa	85	91
West Africa and Rest of Africa	5	46
Americas	44	98
<b>Total</b>	<b>1,892</b>	<b>1,751</b>

### 8 Other financial assets held for trading or available for sale

Other financial assets held for trading or available for sale amounted to €69 million (€55 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
<b>Financing receivables for non-operating purposes</b>		
Listed bonds issued by sovereign states/supranational institutions	26	26
Listed bonds issued by industrial enterprises	29	43
<b>Total</b>	<b>55</b>	<b>69</b>

Listed bonds issued by sovereign states/supranational institutions at December 31, 2017 of €26 million were as follows:

(€ million)	Notional value	Fair value	Nominal rate of return (%)	Maturity	Standard & Poor's rating classification
<b>Fixed rate bonds</b>					
France	3	3	2.50	2020	AA
Ireland	4	5	5.00	2020	A+
Spain	2	2	3.75	2018	BBB+
Poland	7	8	3.75-4.50	2022-2023	BBB+
Other	7	8	1.375-2.50	2019-2020	AAA/A
<b>Total</b>	<b>23</b>	<b>26</b>			

Listed bonds issued by industrial enterprises at December 31, 2017 of €43 million were as follows:

(€ million)	Notional value	Fair value	Nominal rate of return (%)	Maturity	Standard & Poor's rating classification
<b>Fixed rate bonds</b>					
Listed bonds issued by industrial enterprises	41	43	0.00-6.25	2019-2026	AA-/BBB
<b>Total</b>	<b>41</b>	<b>43</b>			

The fair value of available-for-sale securities is determined on the basis of market prices. The fair value hierarchy is level 1.

## 9 Trade and other receivables

Trade and other receivables of €2,411 million (€3,020 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Trade receivables	2,613	2,008
Financing receivables for operating purposes	3	2
Financing receivables for non-operating purposes	3	2
Prepayments for services	247	233
Other receivables	154	166
<b>Total</b>	<b>3,020</b>	<b>2,411</b>

Receivables are stated net of a provision for impairment losses of €602 million.

(€ million)	Dec. 31, 2016	Additions	Deductions	Currency translation differences	Other changes	Dec. 31, 2017
Trade receivables	636	38	(39)	(63)	-	572
Other receivables	6	25	-	(1)	-	30
Financing receivables for non-operating purposes	1	-	-	-	(1)	-
<b>Total</b>	<b>643</b>	<b>63</b>	<b>(39)</b>	<b>(64)</b>	<b>(1)</b>	<b>602</b>

Trade receivables amounted to €2,008 million, were down €605 million compared to December 31, 2016.

At December 31, 2017, Saipem had non-recourse non-notification factoring agreements relating only to trade receivables, including not past due receivables, amounting to €10 million (€100 million at December 31, 2016). Saipem SpA is responsible for managing the collection of the assigned receivables and for transferring the sums collected to the factors.

Trade receivables included retention amounts guaranteeing contract work-in-progress of €260 million (€331 million at December 31, 2016), of which €37 million due within twelve months and €223 million due after twelve months.

Trade receivables neither past due nor impaired amount to €1,295 million (€1,820 million at December 31, 2016), whereas receivables that are past due and are not impaired amount to €713 million (€793 million at December 31, 2016), €254 million of which are from 1 to 90 days past due (€237 million at December 31, 2016), €36 million of which are from 3 to 6 months past due (€58 million at December 31, 2016), €68 million of which are from 6 to 12 months past due (€210 million at December 31, 2016) and €355 million of which are past due by more than 12 months (€288 million at December 31, 2016). These receivables were primarily due from high credit quality counterparties. Receivables referring to disputed projects amounted to €202 million (€205 million at December 31, 2016).

Financing receivables for operating purposes of €2 million (€3 million at December 31, 2016) were mainly related to receivables held by Saipem SpA from Serfactoring SpA.

Other receivables of €166 million were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Receivables from:		
- insurance companies	9	-
- employees	26	25
Guarantee deposits	10	11
Other receivables	109	130
<b>Total</b>	<b>154</b>	<b>166</b>

Other receivables and prepayments for services neither past due nor impaired amounted to €398 million (€400 million at December 31, 2016). Other receivables past due, but not impaired, amounted to €1 million (€1 million at December 31, 2016), due after 12 months. These receivables were primarily due from high credit quality counterparties.

Trade receivables and other receivables from related parties are detailed in Note 49 'Transactions with related parties'.

The fair value of trade and other receivables did not differ significantly from their carrying amount due to the short period of time elapsed between their date of origination and their due date.

Receivables in currencies other than the euro amounted to €1,516 million (€1,962 million at December 31, 2016). Their breakdown by currency was as follows:

- US Dollar 62% (69% at December 31, 2016);
- Saudi Arabian Riyal 20% (13% at December 31, 2016);
- Kuwaiti Dinar 6% (1% at December 31, 2016);
- Australian Dollar 5% (4% at December 31, 2016);
- other currencies 7% (13% at December 31, 2016).

For details on amounts relating to completed projects in Algeria, see Note 53 'Additional information: Algeria'.

## 10 Inventories

Inventories amounted to €1,893 million (€2,242 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Raw and auxiliary materials and consumables	394	319
Contract work in progress	1,848	1,574
<b>Total</b>	<b>2,242</b>	<b>1,893</b>

The item 'Raw and auxiliary materials and consumables' includes spare parts for drilling and construction activities, as well as consumables for internal use and not for sale. The item is stated net of a valuation allowance of €146 million. Due to changes in prospects for use the semi-submersible platform and some drilling rigs, the relevant inventories were written-down for a total of €40 million.

(€ million)	Dec. 31, 2016	Additions	Deductions	Other changes	Dec. 31, 2017
Inventories valuation allowance	143	57	(46)	(8)	146
<b>Total</b>	<b>143</b>	<b>57</b>	<b>(46)</b>	<b>(8)</b>	<b>146</b>

Contract work-in-progress relates to timing differences between actual project progress and the achievement of contractual invoicing milestones, and to the recognition of additional contract revenues deemed probable and reasonably estimated.

The amount recorded in relation to contract work-in-progress has decreased due to recognition of the milestone by the buyers, to invoicing and related income.

Information on construction contracts accounted for in accordance with IAS 11 is provided in Note 48 'Segment information, geographical information and construction contracts'.

For details on amounts relating to projects executed in Algeria, see Note 53 'Additional information: Algeria'.

## 11 Current tax assets

Current tax assets amounted to €213 million (€192 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Italian tax authorities	52	56
Foreign tax authorities	140	157
<b>Total</b>	<b>192</b>	<b>213</b>

The increase in current tax assets of €21 million was mainly due to increase in credits from foreign tax authorities.

## 12 Other current tax assets

Other current tax assets amounted to €221 million (€241 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Italian tax authorities:	16	17
- VAT credits	16	16
- other	-	1
Foreign tax authorities:	225	204
- indirect tax credits	209	180
- other	16	24
<b>Total</b>	<b>241</b>	<b>221</b>

## 13 Other current assets

Other current assets amounted to €185 million (€144 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Fair value on derivatives financial instruments	30	91
Other assets	114	94
<b>Total</b>	<b>144</b>	<b>185</b>

The fair value of derivative financial instruments is commented on Note 29 'Derivative financial instruments'.

Other assets at December 31, 2017 amounted to €94 million, representing a decrease of €20 million compared with December 31, 2016, and consisted mainly of prepayments.

Other assets from related parties are shown in Note 49 'Transactions with related parties'.

## NON-CURRENT ASSETS

### 14 Property, plant and equipment

Property, plant and equipment amounted to €4,581 million (€5,192 million at December 31, 2016) and consisted of the following:

(€ million)	Opening net value	Capital expenditure	Depreciation, amortisation and impairment	Disposals	Change in the scope of consolidation	Business division transactions	Currency translation differences	Other changes	Final net value	Final gross value	Provision for amortisation and impairment
<b>Dec. 31, 2016</b>											
Land	70	-	-	-	-	-	14	-	84	84	-
Buildings	567	8	(341)	(1)	-	-	(5)	11	239	1,171	932
Plant and equipment	6,135	151	(1,962)	(6)	-	-	17	248	4,583	11,702	7,119
Industrial and commercial equipment	195	6	(77)	(10)	-	-	4	4	122	613	491
Other assets	26	2	(13)	-	-	-	1	-	16	136	120
Assets under construction and advances	294	118	-	(1)	-	-	1	(264)	148	154	6
<b>Total</b>	<b>7,287</b>	<b>285</b>	<b>(2,393)</b>	<b>(18)</b>	<b>-</b>	<b>-</b>	<b>32</b>	<b>(1)</b>	<b>5,192</b>	<b>13,860</b>	<b>8,668</b>
<b>Dec. 31, 2017</b>											
Land	84	-	-	(1)	-	-	(11)	-	72	72	-
Buildings	239	6	(35)	(3)	-	-	(21)	10	196	1,058	862
Plant and equipment	4,583	169	(629)	(6)	-	(1)	(78)	127	4,165	11,317	7,152
Industrial and commercial equipment	122	12	(37)	-	-	-	(9)	3	91	563	472
Other assets	16	5	(9)	(1)	-	(2)	-	-	9	114	105
Assets under construction and advances	148	61	(16)	-	-	-	(5)	(140)	48	70	22
<b>Total</b>	<b>5,192</b>	<b>253</b>	<b>(726)</b>	<b>(11)</b>	<b>-</b>	<b>(3)</b>	<b>(124)</b>	<b>-</b>	<b>4,581</b>	<b>13,194</b>	<b>8,613</b>

**Capital expenditure** in 2017 amounted to €253 million (€285 million in 2016) and mainly related to:

- €109 million in the Offshore Engineering & Construction sector: for maintenance and upgrading of the existing asset base;
- €5 million in the Onshore Engineering & Construction sector: purchase of equipment;
- €77 million in the Offshore Drilling sector: class reinstatement works on the semi-submersible platform Scarabeo 9 and on the drilling jack-up Perro Negro 4, and the tender barge TAD, as well as maintenance and upgrading of the existing asset base;
- for Onshore Drilling €62 million: upgrading of rigs for operations in Kuwait, Kazakhstan and Romania, in the framework of contracts in the backlog, as well as the upgrading and maintaining of other assets.

No finance expenses were capitalised during the year.

The main amortisation rates were as follows:

(%)	
Buildings	2.50 - 15.00
Plant and equipment	7.00 - 25.00
Industrial and commercial equipment	3.33 - 50.00
Other assets	12.00 - 20.00

Exchange rate differences due to the translation of financial statements prepared in currencies other than euro, amounting to negative €124 million.

During the year, no government grants were recorded as a decrease of the carrying value of property, plant and equipment.

At December 31, 2017, all property, plant and equipment was free from pledges, mortgages and any other obligations.

The total commitment on current items of capital expenditure at December 31, 2017 is indicated in Note 3 'Summary of significant accounting policies', in the paragraph 'Financial risk management'.

Property, plant and equipment includes assets carried under finance leases amounting to the equivalent of €27 million, relating to finance leases for the utilisation of two onshore drilling rigs in Saudi Arabia for a period of 36 months starting in October 2015.

Due to the changed prospects of use in the medium term, the semi-submersible platform Scarabeo 5 and some Onshore Drilling rigs have been completely written down. In addition, some vessels were partially written down following the impairment test, as specified in the following section.

## Impairment

In reviewing its impairment indicators, Saipem considers, among other factors, the comparison between its market capitalisation and net assets. At December 31, 2017, the Group's market capitalisation was lower than its net assets, indicating a potential impairment of goodwill and/or of other assets. For this reason, and taking into account the persistence of a challenging market environment still characterised by a certain volatility in the price of oil and the delayed take off of numerous new investment initiatives by the oil companies, an impairment test was carried out on each of the cash generating units ('CGU'). Specifically, the 15 cash generating units on which impairment tests were carried out were: one leased FPSO unit, the Offshore E&C division, the Onshore E&C division excluding the leased FPSO, the Onshore Drilling division, and the individual rigs from the Offshore Drilling division (10 separate rigs) and the new XSIGHT division, created during the organisational restructuring of the company in 2017. The Strategic Plan 2018-2021, approved by the Board of Directors in March 2018, provides the basis for estimating the recoverable amount of the individual cash generating units.

The CGUs were tested for impairment by comparing the carrying amount with the relative recoverable value which, considering the nature of Saipem's assets, is determined on the basis of the value in use obtained by discounting future cash flows generated by each of the cash generating units at the weighted average cost of capital ('WACC').

The expected future cash flows used for the impairment reviews were based on the best information available and expectations at the date of the review, taking into account forecasts regarding the relevant markets. Specifically, for estimating the cash flows of the first four years of the explicit forecast for the purpose of the impairment test, projections of the Strategic Plan 2018-2021 have been used. For the years following the fourth year, the cash flows have been calculated on the basis of a terminal value, determined: (a) for the Offshore E&C, Onshore E&C, XSIGHT and Onshore Drilling cash generating units using the perpetuity model, applying a long-term growth rate of 2% to the normalised free cash flow of the final projection year (to take into account the dynamics of the business and/or the cyclical nature of the sector); (b) for the cash generating unit Leased FPSO Cidade de Vitoria and for the offshore drilling rigs, on the basis of the residual economic and technical life of the individual assets or, if first, on the expected expiry date of the last cyclical maintenance, considering beyond the plan horizon: (i) long-term charter rates defined by the relevant division considering the elements available on market scenarios with other elements of commercial or

strategic nature in its possession, inflated starting from the first year following the last year of the plan; (ii) normalised figures for idle days; (iii) operating costs based on data for the last year of the plan, adjusted for inflation; (iv) investments and related plant downtimes for cyclical maintenance and replacements established by the divisions on the basis of the planned schedule for cyclical and intermediate maintenance.

The value in use is determined by discounting the cash flows net of taxes with a discount rate equal, for all the cash generating units, to 7.5% (an increase of 0.3 percentage points compared to the rate used for the impairment test at December 31, 2016 and down by 0.3 percentage points compared to the rate used for the 2017 half-year report).

The discount rate (WACC) used reflects market assessments of the time value of money and the risks specific to Saipem's stock that are not reflected in the estimate of future cash flows and has been estimated taking into account: (i) a debt cost that is consistent with the average cost estimated for the four years of the Plan; (ii) the average leverage of Saipem over the period of the Plan (taking into account the market capitalisation of the last 12 months); (iii) the beta of the Saipem stock mediated on a multi-year historical horizon. Post-tax cash flows and discount rates were used as they produce outcomes which are equivalent to those resulting from a valuation using pre-tax cash flows and discount rates.

Assumptions were based on management's past experience and take into account current interest rates, business specific risks, as well as expected long-term growth for the sectors.

The impairment test determined that a reduction in the carrying amount of 4 offshore rigs (from Offshore Drilling division) and an FPSO vessel (from Onshore E&C division) for a total of €114 million was necessary (of which €53 million in the first half of the year). Therefore, at December 31, 2017, the Group recorded total reductions of €252 million (of which €97 million in the first half of the year), with an impact of €24 million (related to the FPSO vessel) on the Onshore E&C division (of which €22 million in the first half of the year), of €94 million on the Onshore Drilling division (all in the second half of the year) and €134 million on the Offshore Drilling division (of which €75 million in the first half of the year).

Sensitivity analysis can be found below for the 11 CGU, with reference to 10 offshore drilling rigs and one FPSO vessel and the Onshore Drilling CGU while the sensitivity analysis for the CGU Offshore Engineering & Construction, CGU Onshore Engineering & Construction and CGU XSIGHT can be found in Note 15 'Intangible assets'.

### **Sensitivity analysis of the CGUs referring to 10 offshore drilling rigs and the Leased FPSO**

The key assumptions adopted in assessing the recoverable amounts of the 11 cash generating units representing the Group's offshore vessels (10 from Offshore Drilling and one leased FPSO) related mainly to the operating result of the CGUs (based on a combination of various factors, including charter rates) and the discount rate applied to the cash flows. The effects that any change in the parameters used in the estimate would produce on the recoverable amount of the CGUs are as follows:

- an increase in the discount rate of 1% would produce an increase in the impairment equal to €118 million;
- a decrease in the discount rate of 1% would produce a reduction in the impairment equal to €48 million;
- increases in long-term day rates of 10% compared with the rates assumed in the plan projections would produce a reduction in the impairment of €58 million;
- decreases in long-term day rates of 10% compared with the rates assumed in the plan projections would produce an increase in the impairment of €288 million;
- the use, for the 10 CGUs from Offshore Drilling, of a discount rate of 7.6%, based on the beta of a panel of competitors in the Offshore Drilling sector mediated on a multi-year historical horizon, would result in an increase in write-downs of €6 million;
- the use, for the CGU Leased FPSO Cidade de Vitoria, of a discount rate of 6.1%, based on the beta of a panel of competitors in the Leased FPSO sector mediated on a multi-year historical horizon, would result in a reduction in write-downs of €2 million;
- the use, for the CGU Leased FPSO Cidade de Vitoria, of a discount rate of 8.3%, based on Saipem WACC but including a possible premium for the additional risk linked to the country risk, would result in an increase in write-downs of €3 million.

### **Sensitivity analysis on the Onshore Drilling CGU**

The excess of the recoverable amount of the Onshore Drilling cash generating unit over the corresponding value of the net capital employed is reduced to zero under the following circumstances:

- decrease by 29% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 9.4%;
- use of negative long term growth rate.

Further, the excess of the recoverable amount over the value of the net capital employed in the Onshore Drilling CGU:

- would decrease by 10% in the event that working capital flows have been zeroed;
- would decrease by 59% if a discount rate (equal to 8.5%) was used, based on the beta of a panel of competitors in the Onshore Drilling sector mediated on a multi-year historical horizon.

## 15 Intangible assets

Intangible assets of €753 million (€755 million at December 31, 2016) consisted of the following:

(€ million)	Opening net value	Capital expenditure	Depreciation, amortisation and impairment	Currency translation differences and other changes	Final net value	Final gross value	Provision for amortisation and impairment
<b>Dec. 31, 2016</b>							
<b>Intangible assets with finite useful lives</b>							
Development costs	-	-	-	-	-	7	7
Industrial patents and intellectual property rights	19	7	(11)	2	17	179	162
Concessions, licences and trademarks	4	-	(4)	1	1	19	18
Assets under construction and advances	6	4	-	(3)	7	7	-
Other intangible assets	2	-	-	-	2	3	1
<b>Intangible assets with indefinite useful lives</b>							
Goodwill	727	-	-	1	728	728	-
<b>Total</b>	<b>758</b>	<b>11</b>	<b>(15)</b>	<b>1</b>	<b>755</b>	<b>943</b>	<b>188</b>
<b>Dec. 31, 2017</b>							
<b>Intangible assets with finite useful lives</b>							
Development costs	-	-	-	-	-	7	7
Industrial patents and intellectual property rights	17	6	(10)	5	18	188	170
Concessions, licences and trademarks	1	-	-	-	1	19	18
Assets under construction and advances	7	3	-	(5)	5	5	-
Other intangible assets	2	-	-	-	2	11	9
<b>Intangible assets with indefinite useful lives</b>							
Goodwill	728	-	-	(1)	727	727	-
<b>Total</b>	<b>755</b>	<b>9</b>	<b>(10)</b>	<b>(1)</b>	<b>753</b>	<b>957</b>	<b>204</b>

Concessions, licences and trademarks, industrial patents and intellectual property rights of €1 million and €18 million, respectively, consisted mainly of costs for the implementation of SAP applications and modules at the Parent Company. The main amortisation rates were as follows:

(%)	
Development costs	20.00 - 20.00
Industrial patents and intellectual property rights	6.66 - 33.30
Concessions, licences, trademarks and similar rights	20.00 - 20.00
Other intangible assets	20.00 - 33.00

Goodwill of €727 million refers mainly to the difference between the purchase price, including transaction costs, and the net assets of Saipem SA (€689 million), Sofresid SA (€21 million) and the Moss Maritime Group (€12 million) on the date that control was acquired.

For impairment purposes, goodwill has been allocated to the following cash generating units:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Offshore E&C	403	403
Onshore E&C	291	291
XSIGHT	34	33
<b>Total</b>	<b>728</b>	<b>727</b>

The changes in the total goodwill compared to December 31, 2016 concerned a change in goodwill of the Moss Maritime Group due to effects of changes in foreign exchange rates. Furthermore, due to the creation of the new XSIGHT CGU, to the latter has been allocated the goodwill of the Moss Maritime Group (previously allocated to the Onshore Engineering & Construction CGU) and of Sofresid (previously allocated partly to the Onshore Engineering & Construction CGU and partly to the Offshore Engineering & Construction CGU).

The recoverable amount of the three cash generating units was determined based on the value in use, calculated by discounting the future cash flows expected to be generated by each CGU.

The basis of the cash flow estimate, the discount rate used and the terminal growth rate for the estimate of the recoverable amount of the CGUs to which goodwill is allocated are described in the 'Impairment' section of Note 14 'Property, plant and equipment'.

The table below shows the amounts by which the recoverable amounts of the Offshore Engineering & Construction, Onshore Engineering & Construction and XSIGHT cash generating units exceed their carrying amount, including allocated goodwill.

(€ million)	Offshore	Onshore	XSIGHT	Total
Goodwill	403	291	33	727
Amount by which recoverable amount exceeds carrying amount	875	62	142	1,079

The key assumptions adopted for assessing recoverable amounts were principally the operating results of the CGU (based on a combination of various factors, e.g. sales volumes, service prices, project profit margins, cost structure), the discount rate, the growth rates adopted to determine the terminal value and working capital projections. The effects of changes in these parameters in relation to the amount by which recoverable amount exceeds the carrying amounts (including goodwill) for each of the three CGUs to which goodwill was allocated are described below.

### Sensitivity analysis on the Offshore Engineering & Construction CGU

The following changes in each of the assumptions, ceteris paribus, would cause the excess of the recoverable amount of the Offshore Engineering & Construction cash generating unit over its carrying amount, including the allocated portion of goodwill, to be reduced to zero:

- decrease by 29% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 9.5%;
- negative long term growth rate.

Further, the excess of the recoverable amount over the value of the net capital employed in the Offshore Engineering & Construction CGU:

- would decrease by 29% in the event that working capital flows have been zeroed;
- would decrease by 47% if a discount rate (equal to 8.3%) was used, based on the beta of a panel of competitors in the Offshore Engineering & Construction sector mediated on a multi-year historical horizon.

### Sensitivity analysis on the Onshore Engineering & Construction CGU

The excess of the recoverable amount of the Onshore Engineering & Construction cash generating unit over its carrying amount, including the allocated portion of goodwill, would be reduced to zero under the following circumstances:

- decrease by 12% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 7.9%;
- use of a long term growth rate of 1.5%.

Further, the excess of the recoverable amount over the value of the net capital employed in the Onshore Engineering & Construction CGU:

- would increase in the event that working capital flows have been zeroed;
- would become negative, with a subsequent need to record a goodwill write down of €33 million, if a discount rate (of 8.2%) was used, based on the beta of a panel of competitors in the Onshore Engineering & Construction sector mediated on a multi-year historical horizon.

### Sensitivity analysis on the XSIGHT CGU

The excess of the recoverable amount of the XSIGHT cash generating unit over its carrying amount, including the allocated portion of goodwill, would be reduced to zero under the following circumstances:

- decrease by 72% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 19.6%;
- use of negative long term growth rate.

Further, the excess of the recoverable amount over the value of the net capital employed in the XSIGHT CGU:

- would increase in the event that working capital flows have been zeroed;
- would decrease by 19% if a discount rate (equal to 8.3%) was used, calculated on the basis of an average beta among those used to estimate the discount rates of the Offshore Engineering & Construction and Onshore Engineering & Construction divisions each based on a panel of competitors in their respective sectors, as indicated above.

## 16 Investments

### Investments accounted for using the equity method

Investments accounted for using the equity method of €142 million (€148 million at December 31, 2016) were as follows:

(€ million)	Opening net value	Acquisitions and subscriptions	Sales and reimbursements	Share of profit of equity-accounted investments	Share of loss of equity-accounted investments	Deduction for dividends	Change in the scope of consolidation	Currency translation differences	Movements in reserves	Other changes	Closing net value	Provision for impairment
<b>Dec. 31, 2016</b>												
Investments in subsidiaries, joint ventures and associates	135	-	(3)	26	(7)	(4)	-	2	(1)	-	148	-
<b>Total</b>	<b>135</b>	<b>-</b>	<b>(3)</b>	<b>26</b>	<b>(7)</b>	<b>(4)</b>	<b>-</b>	<b>2</b>	<b>(1)</b>	<b>-</b>	<b>148</b>	<b>-</b>
<b>Dec. 31, 2017</b>												
Investments in subsidiaries, joint ventures and associates	148	25	(4)	8	(16)	(2)	-	(16)	-	(1)	142	-
<b>Total</b>	<b>148</b>	<b>25</b>	<b>(4)</b>	<b>8</b>	<b>(16)</b>	<b>(2)</b>	<b>-</b>	<b>(16)</b>	<b>-</b>	<b>(1)</b>	<b>142</b>	<b>-</b>

Investments accounted for using the equity method are detailed in Note 6 'Scope of consolidation at December 31, 2017'.

Acquisitions and subscriptions of €25 million related mainly to the subscription, of a capital increase, of TSGI Mühendislik İnşaat Ltd Şirketi.

The share of profit of investments accounted for using the equity method of €8 million mainly concern the results recorded by associates.

The share of losses of investments accounted for using the equity method of €16 million included losses for the period of €15 million recorded by the joint venture companies and €1 million for the period recorded by associates.

Deductions for dividends of €2 million related mainly to KWANDA Suporte Logistico Lda.

The net carrying value of investments accounted for using the equity method is related to the following companies:

(€ million)	Group interest (%)	Net value at Dec. 31, 2016	Net value at Dec. 31, 2017
Rosetti Marino SpA	20.00	31	30
Petromar Lda	70.00	52	42
Other		65	70
<b>Total investments accounted for using the equity method</b>		<b>148</b>	<b>142</b>

The total carrying value of investments accounted for using the equity method does not include the provision for losses of €2 million (€2 million at December 31, 2016) recorded under the provisions for contingencies.

### Other investments

Other investments amount to €1 million (€1 million as at December 31, 2016) and refer to the evaluation at fair value of the companies of Nagarjuna Oil Refinery Ltd and Nagarjuna Fertilizers and Chemicals Ltd. The fair value hierarchy is level 1.

### Other information about investments

The following table summarises key financial data from the IFRS financial statements of non-consolidated subsidiaries, joint ventures and associates accounted for using the equity method or recorded at cost, in proportion to the Group interest held:

(€ million)	Dec. 31, 2016			Dec. 31, 2017		
	Subsidiaries	Joint ventures	Associates	Subsidiaries	Joint ventures	Associates
Total assets	1	391	349	-	290	264
of which cash and cash equivalents	-	50	54	-	25	44
Total liabilities	1	320	274	1	223	190
Net revenues	1	386	213	1	285	173
Operating profit	-	18	21	-	(8)	8
Net profit (loss) for the year	-	4	14	-	(16)	7

The table below shows income statement and balance sheet data from the joint ventures (full amounts shown).

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Current assets	696	607
- of which cash and cash equivalents	102	52
Non-current assets	104	88
<b>Total assets</b>	<b>800</b>	<b>695</b>
Current liabilities	647	549
- of which current financial liabilities	1	1
Non-current liabilities	33	21
<b>Total liabilities</b>	<b>680</b>	<b>570</b>
<b>Shareholders' equity</b>	<b>120</b>	<b>125</b>
<b>Carrying amount of investment</b>	<b>71</b>	<b>67</b>
Revenues and other operating income	961	730
Operating expenses	(904)	(737)
Depreciation, amortisation and impairment	(18)	(16)
<b>Operating result</b>	<b>39</b>	<b>(23)</b>
Finance income (expense)	(28)	(17)
Income (expense) from investments	-	1
<b>Result before income taxes</b>	<b>11</b>	<b>(39)</b>
Income taxes	(7)	(1)
<b>Net profit (loss) for the year</b>	<b>4</b>	<b>(40)</b>
Other items of comprehensive income	(4)	(19)
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>(59)</b>
<b>Net profit (loss) attributable to Group</b>	<b>4</b>	<b>(16)</b>
<b>Dividends approved by joint ventures</b>	<b>2</b>	<b>-</b>

The table below shows income statement and balance sheet data from the associates (full amounts shown).

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Current assets	722	578
- of which cash and cash equivalents	152	142
Non-current assets	248	228
<b>Total assets</b>	<b>970</b>	<b>806</b>
Current liabilities	586	414
- of which current financial liabilities	49	41
Non-current liabilities	113	127
- of which non-current financial liabilities	45	56
<b>Total liabilities</b>	<b>699</b>	<b>541</b>
<b>Shareholders' equity</b>	<b>271</b>	<b>265</b>
<b>Carrying amount of investment</b>	<b>75</b>	<b>74</b>
Revenues and other operating income	585	521
Operating expenses	(502)	(477)
Depreciation, amortisation and impairment	(25)	(27)
<b>Operating result</b>	<b>58</b>	<b>17</b>
Finance income (expense)	(19)	-
Income (expense) from investments	(1)	-
<b>Result before income taxes</b>	<b>38</b>	<b>17</b>
Income taxes	-	(3)
<b>Net profit (loss) for the year</b>	<b>38</b>	<b>14</b>
Other items of comprehensive income	3	(15)
<b>Total comprehensive income (loss) for the year</b>	<b>41</b>	<b>(1)</b>
<b>Net profit (loss) attributable to Group</b>	<b>14</b>	<b>7</b>
<b>Dividends approved by associates</b>	<b>2</b>	<b>2</b>

## 17 Deferred tax assets

Deferred tax assets of €268 million (€302 million at December 31, 2016) are shown net of offsettable deferred tax liabilities.

(€ million)	Dec. 31, 2016	Additions	Deductions	Currency translation differences	Other changes	Dec. 31, 2017
Deferred tax assets	302	87	(114)	(10)	3	268
<b>Total</b>	<b>302</b>	<b>87</b>	<b>(114)</b>	<b>(10)</b>	<b>3</b>	<b>268</b>

The item 'Other changes', which amounted to positive €3 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €40 million); (ii) the negative tax effects (€25 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; (iii) income tax (negative €1 million) relating to remeasurements of defined benefit plans reported in equity; (iv) other changes (negative €11 million).

Net deferred tax assets consisted of the following:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Deferred tax liabilities	(233)	(169)
Offsettable deferred tax assets	174	134
<b>Net deferred tax liabilities</b>	<b>(59)</b>	<b>(35)</b>
Non-offsettable deferred tax assets	302	268
<b>Net deferred tax assets (liabilities)</b>	<b>243</b>	<b>233</b>

The most significant temporary differences giving rise to net deferred tax assets are as follows:

(€ million)	Dec. 31, 2016	Additions	Deductions	Exchange rate differences	Other changes	Dec. 31, 2017
Deferred tax liabilities:						
- accelerated tax depreciation	(99)	(1)	3	4	-	(93)
- derivative contracts qualified for hedge accounting	(59)	-	42	-	(5)	(22)
- employee benefits	(2)	-	-	-	1	(1)
- non distributed reserves held by investments	(36)	-	21	-	-	(15)
- project progress status	(11)	(1)	8	1	-	(3)
- other	(26)	(2)	33	3	(43)	(35)
	<b>(233)</b>	<b>(4)</b>	<b>107</b>	<b>8</b>	<b>(47)</b>	<b>(169)</b>
less:						
Offsettable deferred tax liabilities	174	-	-	-	(40)	134
<b>Deferred tax liabilities</b>	<b>(59)</b>	<b>(4)</b>	<b>107</b>	<b>8</b>	<b>(87)</b>	<b>(35)</b>
Deferred tax assets:						
- accruals for impairment losses and provisions for contingencies	75	22	(33)	(1)	-	63
- non-deductible amortisation	46	1	(6)	(1)	-	40
- derivative contracts qualified for hedge accounting	52	2	(26)	-	(25)	3
- employee benefits	32	1	(8)	-	(1)	24
- carry-forward tax losses	834	98	(65)	(63)	(6)	798
- project progress status	50	11	(15)	(2)	-	44
- other	61	20	(10)	(1)	(5)	65
	<b>1,150</b>	<b>155</b>	<b>(163)</b>	<b>(68)</b>	<b>(37)</b>	<b>1,037</b>
less:						
- unrecognised deferred tax assets	(674)	(68)	49	58	-	(635)
	<b>476</b>	<b>87</b>	<b>(114)</b>	<b>(10)</b>	<b>(37)</b>	<b>402</b>
less:						
Offsettable deferred tax assets	(174)	-	-	-	40	(134)
<b>Deferred tax assets</b>	<b>302</b>	<b>87</b>	<b>(114)</b>	<b>(10)</b>	<b>3</b>	<b>268</b>
<b>Net deferred tax assets (liabilities)</b>	<b>243</b>	<b>83</b>	<b>(7)</b>	<b>(2)</b>	<b>(84)</b>	<b>233</b>

Unrecognised deferred tax assets of €635 million (€674 million at December 31, 2016) mainly related to tax losses that it will probably not be possible to utilise against future income.

## Tax losses

Tax losses amounted to €2,989 million (€3,021 million at December 31, 2016) of which a considerable part can be carried forward without limit. Tax recovery corresponds to a tax rate of 24% for Italian companies and to an average tax rate of 27.1% for foreign companies.

Tax losses related mainly to foreign companies and can be used in the following periods:

(€ million)	Italy	Outside Italy
2018	-	39
2019	-	36
2020	-	33
2021	-	39
2022	-	20
After 2022	-	746
Without limit	375	1,701
<b>Total</b>	<b>375</b>	<b>2,614</b>

Taxes are shown in Note 45 'Income taxes'.

## 18 Other non-current assets

Other non-current assets of €102 million (€102 million at December 31, 2016) were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Fair value on derivatives financial instruments	2	6
Other receivables	16	15
Other non-current assets	84	81
<b>Total</b>	<b>102</b>	<b>102</b>

The fair value of derivative financial instruments is commented on Note 29 'Derivative financial instruments'.

Other non-current assets mainly related to prepayments.

Other non-current assets from related parties are shown in Note 49 'Transactions with related parties'.

## CURRENT LIABILITIES

### 19 Short-term debt

Short-term debt of €120 million (€152 million at December 31, 2016) consisted of the following:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Banks	144	114
Other financial institutions	8	6
<b>Total</b>	<b>152</b>	<b>120</b>

Short-term debt decreased by €32 million. The current portion of long-term debt, amounting to €69 million (€54 million at December 31, 2016), is detailed in Note 24 'Long-term debt and current portion of long-term debt'.

The breakdown of short-term debt by issuing institution, currency and average interest rate was as follows:

(€ million)		Dec. 31, 2016			Dec. 31, 2017		
Issuing institution	Currency	Amount	Interest rate %		Amount	Interest rate %	
			from	to		from	to
Third parties	Euro	51	0.00	0.50	50	0.05	0.05
Third parties	US Dollar	1	0.00	0.00	2	0.00	0.00
Third parties	Other	100	variable		68	variable	
<b>Total</b>		<b>152</b>			<b>120</b>		

At December 31, 2017, Saipem had uncommitted lines of credit amounting to €267 million (€150 million at December 31, 2016). Commission fees on unused lines of credit were not significant.

Short-term debt to related parties are shown in Note 49 'Transactions with related parties'.

## 20 Trade and other payables

Trade and other payables of €4,036 million (€4,860 million at December 31, 2016) consisted of the following:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Trade payables	2,770	2,179
Deferred income and advances	1,787	1,465
Other payables	303	392
<b>Total</b>	<b>4,860</b>	<b>4,036</b>

Trade payables amounted to €2,179 million, representing a decrease of €591 million compared with December 31, 2016. Deferred income and advances of €1,465 million (€1,787 million at December 31, 2016), consisted mainly of adjustments to revenues from long-term contracts of €984 million (€1,051 million at December 31, 2016) made on the basis of amounts contractually earned in accordance with the accruals concept and advances on contract work in progress received by Saipem SpA and a number of foreign subsidiaries of €481 million (€736 million at December 31, 2016).

Trade and other payables to related parties are shown in Note 49 'Transactions with related parties'.

Other payables of €392 million were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Payables to:		
- employees	150	131
- national insurance/social security contributions	63	59
- insurance companies	4	3
- consultants and professionals	4	4
- Board Directors and Statutory Auditors	1	1
Other payables	81	194
<b>Total</b>	<b>303</b>	<b>392</b>

The fair value of trade and other payables did not differ significantly from their carrying amount due to the short period of time elapsed between their date of origination and their due date. The increase in other payables is due to the settlement of the dispute with Sonatrach. For details on amounts relating to completed projects in Algeria, see Note 53 'Additional information: Algeria'.

## 21 Income tax payables

Income tax payables amounted to €47 million (€96 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Italian tax authorities	-	-
Foreign tax authorities	96	47
<b>Total</b>	<b>96</b>	<b>47</b>

## 22 Other current tax payables

Other current tax payables amounted to €191 million (€265 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Italian tax authorities:	13	12
- other	13	12
Foreign tax authorities:	252	179
- indirect tax	185	129
- other	67	50
<b>Total</b>	<b>265</b>	<b>191</b>

## 23 Other current liabilities

Other current liabilities amounted to €24 million (€244 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Fair value on derivatives financial instruments	197	17
Other current liabilities	47	7
<b>Total</b>	<b>244</b>	<b>24</b>

The fair value of derivative financial instruments is commented on Note 29 'Derivative financial instruments'.

Other liabilities amounted to €7 million (€47 million at December 31, 2016).

Other liabilities to related parties are shown in Note 49 'Transactions with related parties'.

## NON-CURRENT LIABILITIES

### 24 Long-term debt and current portion of long-term debt

Long-term debt, including the current portion of long-term debt, amounted to €2,998 million (€3,248 million at December 31, 2016) and was as follows:

(€ million)	Dec. 31, 2016			Dec. 31, 2017		
	Short-term maturity	Long-term maturity	Total	Short-term maturity	Long-term maturity	Total
Banks	35	2,193	2,228	33	941	974
Ordinary bonds	9	993	1,002	28	1,988	2,016
Other financial institutions	10	8	18	8	-	8
<b>Total</b>	<b>54</b>	<b>3,194</b>	<b>3,248</b>	<b>69</b>	<b>2,929</b>	<b>2,998</b>

Long-term debt is shown below by year of maturity.

(€ million)							
Type	Maturity range	2019	2020	2021	2022	After	Total
Banks	2019-2027	432	132	98	83	196	941
Ordinary bonds	2021-2025	-	-	497	498	993	1,988
Other financial institutions	2019	-	-	-	-	-	-
<b>Total</b>		<b>432</b>	<b>132</b>	<b>595</b>	<b>581</b>	<b>1,189</b>	<b>2,929</b>

The long-term portion of long-term debt amounted to €2,929 million, down €265 million against December 31, 2016 (€3,194 million).

The following table breaks down long-term debt, inclusive of the current portion, by issuing entity and currency and also shows maturities and average interest rates:

(€ million)								
Issuing institution	Currency	Maturity	Dec. 31, 2016			Dec. 31, 2017		
			Amount	Interest rate %		Amount	Interest rate %	
				from	to		from	to
Third parties	Euro	2019-2027	3,246	1.31	4.10	2,998	0.90	4.10
Third parties	Brazilian Real	2018	2	13.50	13.50	-	-	-
<b>Total</b>			<b>3,248</b>			<b>2,998</b>		

There was no debt secured by mortgages or liens on fixed assets of consolidated companies or by pledges on securities.

The fair value of long-term debt, including the current portion of long-term debt, amounted to €3,066 million (€3,318 million at December 31, 2016) and was calculated by discounting the expected future cash flows in the main currencies of the loan at the following, approximate rates:

(%)	2016	2017
Euro	0.00-3.22	0.04-3.47

The market value of listed financial instruments was calculated using the closing stock price at the last available date of the year. The difference in the market value of long-term debt with respect to nominal value is mainly related to bond issues outstanding at the date.

At December 31, 2017, Saipem had unused lines of credit amounting to €1,786 million (€1,500 million at December 31, 2016). Commission fees on unused lines of credit were not significant.

Long-term debt to related parties is shown in Note 49 'Transactions with related parties'.

### Analyses of net borrowings

Net borrowings indicated in 'Financial and economic results' of the 'Directors' Report' are shown below:

(€ million)	Dec. 31, 2016			Dec. 31, 2017		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	1,892	-	1,892	1,751	-	1,751
B. Available-for-sale securities	55	-	55	69	-	69
<b>C. Liquidity (A+B)</b>	<b>1,947</b>	<b>-</b>	<b>1,947</b>	<b>1,820</b>	<b>-</b>	<b>1,820</b>
<b>D. Financing receivables</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>2</b>	<b>-</b>	<b>2</b>
E. Short-term bank debt	144	-	144	114	-	114
F. Long-term bank debt	35	2,193	2,228	33	941	974
G. Short-term related party debt	-	-	-	-	-	-
H. Ordinary bond	9	993	1,002	28	1,988	2,016
I. Long-term related party debt	-	-	-	-	-	-
L. Other short-term debt	8	-	8	6	-	6
M. Other long-term debt	10	8	18	8	-	8
<b>N. Total borrowings (E+F+G+H+I+L+M)</b>	<b>206</b>	<b>3,194</b>	<b>3,400</b>	<b>189</b>	<b>2,929</b>	<b>3,118</b>
<b>O. Net financial position pursuant to Consob Communication No. DEM/6064293/2006 (N-C-D)</b>	<b>(1,744)</b>	<b>3,194</b>	<b>1,450</b>	<b>(1,633)</b>	<b>2,929</b>	<b>1,296</b>
<b>P. Non-current financing receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Q. Net borrowings (O-P)</b>	<b>(1,744)</b>	<b>3,194</b>	<b>1,450</b>	<b>(1,633)</b>	<b>2,929</b>	<b>1,296</b>

Net borrowings include a liability relating to the interest rate swap, equal to €1 million, but do not include the fair value of derivatives indicated in Note 13 'Other current assets', Note 18 'Other non-current assets', Note 23 'Other current liabilities' and Note 28 'Other non-current liabilities'.

Cash and cash equivalents included €77 million deposited in accounts that are frozen or are time deposits, as indicated in Note 7 'Cash and cash equivalents'.

The change compared to the balance at December 31, 2016, amounting to €154 million, is mainly due to the cash flow generated during the year.

Based on the amendments to IAS 7 'Disclosure Initiative' the following is a reconciliation between the initial and final values of finance debt and the net financial position:

(€ million)	Dec. 31, 2016	Cash flows	Non-cash changes			Dec. 31, 2017
			Acquisitions	Foreign exchange movement	Fair value changes	
Short-term debt	152	43	-	(75)	-	120
Long-term debt and current portion of long-term debt	3,248	(250)	-	-	-	2,998
<b>Total liabilities from financing activities</b>	<b>3,400</b>	<b>(207)</b>	<b>-</b>	<b>(75)</b>	<b>-</b>	<b>3,118</b>

## 25 Provisions for contingencies

Provisions for contingencies of €340 million (€268 million at December 31, 2016) consisted of the following:

(€ million)	Opening balance	Additions	Deductions	Other changes	Closing balance
<b>Dec. 31, 2016</b>					
Provisions for taxes	56	10	(23)	(3)	40
Provisions for contractual penalties and disputes	16	78	(8)	6	92
Provisions for losses of investments	1	1	-	-	2
Provision for contractual expenses and losses on long-term contracts	126	17	(68)	(17)	58
Provisions for redundancy incentives	-	-	-	-	-
Other	39	46	(12)	3	76
<b>Total</b>	<b>238</b>	<b>152</b>	<b>(111)</b>	<b>(11)</b>	<b>268</b>
<b>Dec. 31, 2017</b>					
Provisions for taxes	40	34	(3)	(2)	69
Provisions for contractual penalties and disputes	92	19	(32)	(5)	74
Provisions for losses of investments	2	1	-	(1)	2
Provision for contractual expenses and losses on long-term contracts	58	22	(46)	16	50
Provisions for redundancy incentives	-	25	-	-	25
Other	76	104	(54)	(6)	120
<b>Total</b>	<b>268</b>	<b>205</b>	<b>(135)</b>	<b>2</b>	<b>340</b>

The **provisions for taxes** amounted to €69 million and related principally to disputes with foreign tax authorities that are either ongoing or potential, taking into account the results of recent assessments.

The **provisions for contractual penalties and disputes** amounted to €74 million and consisted of provisions set aside by Saipem SpA and a number of foreign subsidiaries in relation to ongoing disputes.

The **provisions for losses of investments** amounted to €2 million and related to provisions for losses of investments that exceed their carrying amount.

The **provision for contractual expenses and losses on long-term contracts** stood at €50 million and related to an estimate of losses on long-term contracts in the Offshore and Onshore Engineering & Construction sectors.

The **provisions for redundancy incentives** amounted to €25 million and refers to provisions in foreign subsidiaries.

**Other provisions** amounted to €120 million.

For details on amounts relating to completed projects in Algeria, see Note 53 'Additional information: Algeria'.

## 26 Provisions for employee benefits

Provisions for employee benefits at December 31, 2017 amounted to €199 million (€206 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
TFR	50	43
Foreign defined benefit plans	82	82
FISDE and other health plans	20	20
Other provisions for long-term employee benefits	54	54
<b>Total</b>	<b>206</b>	<b>199</b>

Provisions for employee benefits of the Saipem Group relate to employee termination indemnities, foreign defined benefit plans, the supplementary medical reserve for Eni managers (FISDE), and other long-term benefits.

Provisions for indemnities upon termination of employment primarily related to the provisions accrued by Italian companies for employee termination indemnities ('TFR'), determined using actuarial techniques and regulated by Article 2120 of the Italian Civil Code. The indemnity is paid upon retirement as a lump sum payment and is determined by the total of the accruals during the employees' service period based on payroll costs as revalued until retirement.

As a result of the provisions contained in the Finance Act for 2007 and related legislation – which came into effect on January 1, 2007 – for post-retirement indemnities under the Italian TFR are paid into pension funds or the treasury fund held by the Italian administration for post-retirement benefits (Inps). For companies with less than 50 employees it was possible to continue the scheme as in previous years.

The choice applied retrospectively from January 1, 2007. The allocation of future TFR provisions to private pension funds or to the Inps fund meant that these amounts would be classified as costs to provide benefits under a defined contribution plan. Past provisions accrued for post-retirement indemnities under the Italian TFR regime continue to represent costs to provide benefits under a defined benefit plan and must be assessed based on actuarial assumptions.

Following this change in regime, which occurred in 2007, the existing provision for Italian employees was reassessed to take account of the curtailment due to reduced future obligations reflecting the exclusion of future salaries and relevant increases from actuarial calculations.

Foreign defined benefit plans related to:

- defined benefit plans of foreign companies located, primarily, in France, Switzerland, the United Kingdom and Norway;
- pension provisions and similar obligations for personnel employed abroad, to whom local legislation applies.

Benefits consist of a return on capital determined on the basis of the length of service and the compensation paid in the last year of service or an average annual compensation paid in a determined period preceding retirement.

Liabilities and costs related to supplementary medical reserve for Eni managers (FISDE) are calculated on the basis of the contributions paid by the company for retired managers.

Other provisions for long-term employee benefits related mainly to deferred monetary incentive plans, long-term incentive plans, jubilee awards, the voluntary redundancy incentive plan (Article 4, Law No. 92/2012) and other long-term plans.

The deferred monetary incentive scheme comprises estimated variable remuneration related to company performance to be paid out to senior managers who achieve their individual targets. The long-term incentive plans, which replace the previous stock option plans, provide for a variable pay-out after a three-year vesting period based on performance targets. Jubilee awards are benefits due following the attainment of a minimum period of service and, with regard to the Italian companies, they consist of remuneration in kind.

The voluntary redundancy incentive plan, allocated following an agreement which implemented the provisions of Article 4, Law No. 92/2012, and which was dated May 23, 2016 between Saipem SpA representatives of the main Trade Union Organisations in order to implement, in the least traumatic way possible, a correct re-structuring of personnel, includes the estimate of charges, determined on an actuarial basis, connected to offers for early, consensual termination of the employment relationship.

Provisions for employee benefits calculated using actuarial techniques are detailed below:

(€ million)	Dec. 31, 2016					Dec. 31, 2017				
	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total
<b>Present value of benefit obligation at beginning of year</b>	<b>52</b>	<b>181</b>	<b>23</b>	<b>41</b>	<b>297</b>	<b>50</b>	<b>153</b>	<b>20</b>	<b>54</b>	<b>277</b>
Current cost	-	17	1	6	24	-	14	1	7	22
Interest expense	1	5	-	1	7	-	4	-	-	4
Remeasurements:	3	3	(3)	5	8	(2)	3	-	(6)	(5)
- actuarial gains and losses arising from changes in demographic assumptions	-	(4)	-	-	(4)	-	-	-	-	-
- actuarial gains and losses arising from changes in financial assumptions	2	7	-	1	10	(1)	1	-	(5)	(5)
- experience adjustments	1	-	(3)	4	2	(1)	2	-	(1)	-
Past service cost and gains/losses arising from settlements	-	(27)	-	9	(18)	-	3	-	19	22
Contributions to plan:	-	-	-	-	-	-	-	-	(3)	(3)
- contributions to plan by employees	-	-	-	-	-	-	-	-	-	-
- contributions to plan by employer	-	-	-	-	-	-	-	-	(3)	(3)
Benefits paid	(6)	(20)	(1)	(8)	(35)	(5)	(16)	(1)	(16)	(38)
Business division transactions	-	-	-	-	-	-	(1)	-	(1)	(2)
Exchange rate differences and other changes	-	(6)	-	-	(6)	-	1	-	-	1
<b>Present value of benefit obligation at end of year</b>	<b>50</b>	<b>153</b>	<b>20</b>	<b>54</b>	<b>277</b>	<b>43</b>	<b>161</b>	<b>20</b>	<b>54</b>	<b>278</b>
<b>Plan assets at beginning of year</b>	<b>-</b>	<b>86</b>	<b>-</b>	<b>-</b>	<b>86</b>	<b>-</b>	<b>71</b>	<b>-</b>	<b>-</b>	<b>71</b>
Interest income	-	2	-	-	2	-	1	-	-	1
Return on plan assets	-	4	-	-	4	-	1	-	-	1
Past service cost and gains/losses arising from settlements	-	(18)	-	-	(18)	-	-	-	-	-
Contributions to plan:	-	6	-	-	6	-	4	-	-	4
- contributions to plan by employees	-	-	-	-	-	-	-	-	-	-
- contributions to plan by employer	-	6	-	-	6	-	4	-	-	4
Benefits paid	-	(3)	-	-	(3)	-	(4)	-	-	(4)
Exchange rate differences and other changes	-	(6)	-	-	(6)	-	6	-	-	6
<b>Plan assets at year end</b>	<b>-</b>	<b>71</b>	<b>-</b>	<b>-</b>	<b>71</b>	<b>-</b>	<b>79</b>	<b>-</b>	<b>-</b>	<b>79</b>
<b>Net liability</b>	<b>50</b>	<b>82</b>	<b>20</b>	<b>54</b>	<b>206</b>	<b>43</b>	<b>82</b>	<b>20</b>	<b>54</b>	<b>199</b>

The value of the net liability for other provisions for long-term employee benefits of €54 million (€54 million December 31, 2016) related to deferred monetary incentives of €1 million (€3 million at December 31, 2016), jubilee awards of €5 million (€7 million at December 31, 2015), the long-term incentive plan for €1 million (€3 million at December 31, 2016), the voluntary redundancy incentive plan for €23 million (€10 million at December 31, 2016) and other long-term overseas plans for €24 million (€31 million at December 31, 2016).

Costs for employee benefits determined using actuarial assumptions charged to the income statement are detailed below:

(€ million)	Dec. 31, 2016					Dec. 31, 2017				
	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total
Current cost	-	17	1	6	24	-	14	1	7	22
Past service cost and gains/losses arising from settlement	-	(9)	-	9	-	-	3	-	19	22
Net interest expense (income):										
- interest cost on obligation	1	5	-	1	7	-	4	-	-	4
- interest income on plan assets	-	(2)	-	-	(2)	-	(1)	-	-	(1)
Total net interest income (expense)	1	3	-	1	5	-	3	-	-	3
<i>of which recognised in payroll costs</i>	-	-	-	1	1	-	-	-	-	-
<i>of which recognised in finance income (expense)</i>	1	3	-	-	4	-	3	-	-	3
Remeasurement of long-term plans	-	-	-	5	5	-	-	-	(6)	(6)
<b>Total</b>	<b>1</b>	<b>11</b>	<b>1</b>	<b>21</b>	<b>34</b>	<b>-</b>	<b>20</b>	<b>1</b>	<b>20</b>	<b>41</b>
<i>of which recognised in payroll costs</i>	-	8	1	21	30	-	17	1	20	38
<i>of which recognised in finance income (expense)</i>	1	3	-	-	4	-	3	-	-	3

Costs for defined benefit plans recognised in other comprehensive income were as follows:

(€ million)	2016				2017			
	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Total	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Total
Remeasurements:								
- actuarial gains and losses arising from changes in demographic assumptions	-	(4)	-	(4)	-	-	-	-
- actuarial gains and losses arising from changes in financial assumptions	2	7	-	9	(1)	1	-	-
- experience adjustments	1	-	(3)	(2)	(1)	2	-	1
- return on plan assets	-	(4)	-	(4)	-	(1)	-	(1)
<b>Total</b>	<b>3</b>	<b>(1)</b>	<b>(3)</b>	<b>(1)</b>	<b>(2)</b>	<b>2</b>	<b>-</b>	<b>-</b>

Plan assets consisted of the following:

(€ million)	Cash and cash equivalents	Equity instruments	Debt instruments	Real estate	Derivative financial instruments	Mutual funds	Assets held by insurance companies	Structured debt securities	Other assets	Total
Plan assets:										
- prices quoted in active markets	7	17	26	3	10	4	11	-	1	79
- prices not quoted in active markets	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>7</b>	<b>17</b>	<b>26</b>	<b>3</b>	<b>10</b>	<b>4</b>	<b>11</b>	<b>-</b>	<b>1</b>	<b>79</b>

The main actuarial assumptions used in the evaluation of post-retirement benefit obligations at year end and the estimate of costs expected for 2017 were as follows:

		TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits
<b>2016</b>					
Main actuarial assumptions:					
- discount rates	(%)	1	1.00-15.85	1.00-6.80	0.50-7.90
- rate of compensation increase	(%)	1	1.00-14.00	-	1.00-14.00
- expected rate of return on plan assets	(%)	-	2.60-6.80	-	-
- rate of inflation	(%)	1	1.00-12.00	1.00-5.00	1.00-4.00
- life expectancy at 65 years	(years)	-	15-25	20-25	-
<b>2017</b>					
Main actuarial assumptions:					
- discount rates	(%)	1.50	0.65-14.10	1.50-7.50	0.00-7.50
- rate of compensation increase	(%)	2.00	1.00-8.00	-	0.00-6.00
- expected rate of return on plan assets	(%)	-	0.65-6.00	-	-
- rate of inflation	(%)	1.50	1.00-18.00	1.50-5.00	0.00-5.00
- life expectancy at 65 years	(years)	-	15-25	20-25	-

The main actuarial assumptions used by geographical area were as follows:

		Eurozone	Rest of Europe	Africa	Others
<b>2016</b>					
Discount rates	(%)	0.50-1.00	2.60	3.50-15.85	1.75-8.10
Rate of compensation increase	(%)	1.00-2.00	2.25	1.00-14.00	2.50-7.00
Rate of inflation	(%)	1.00	1.50-3.25	3.50-12.00	2.00-5.00
Life expectancy at 65 years	(years)	22-25	15-25	15	17
<b>2017</b>					
Discount rates	(%)	0.00-1.50	2.40	3.70-14.10	2.20-7.50
Rate of compensation increase	(%)	0.00-2.00	2.50	3.00-5.20	1.00-7.00
Rate of inflation	(%)	0.00-1.50	1.50-3.20	3.70-14.80	3.00-18.00
Life expectancy at 65 years	(years)	22-25	15-25	15	17

The discount rate used was determined based on market yields on primary corporate bonds (AA rating) in countries with a sufficiently deep market. Where these were not available, government bonds were considered.

The inflation rates used were based on long-term forecasts prepared by domestic and international banking institutions.

The demographic tables employed are those used by local actuaries to perform IAS 19 measurements, taking into account any updates.

The effects of reasonably possible changes in the actuarial assumptions at year end were as follows:

(€ million)	Discount rate		Rate of inflation		Rate of compensation increase	Expected rates of pension increase	Medical cost trend rates
	0.5% increase	0.5% decrease	0.5% increase	0.5% increase	0.5% increase	0.5% increase	1% Increase
<b>Impact on net defined benefit obligation</b>	<b>(15)</b>	<b>17</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>1</b>	<b>2</b>
TFR	(2)	2	2	-	-	-	-
Foreign defined benefit plans	(10)	11	2	6	1	-	-
FISDE and other foreign health plans	(1)	2	-	-	-	-	2
Other provisions for long-term employee benefits	(2)	2	-	1	-	-	-

The sensitivity analysis was performed by applying the modified parameters to the results of the analyses conducted for each plan.

The amount expected to be accrued to foreign defined benefit plans in the subsequent year is €5 million.

The maturity profile of employee defined benefit plan obligations is as follows:

(€ million)	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits
2018	1	11	1	10
2019	1	10	1	4
2020	2	10	1	4
2021	2	11	1	1
2022	3	11	1	2
After	16	56	4	8

The weighted average duration of obligations is as follows:

(years)	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits
2016	10	13	15	7
2017	10	12	15	11

## 27 Deferred tax liabilities

Deferred tax liabilities of €35 million (€59 million at December 31, 2016) are shown net of offsettable deferred tax assets of €134 million.

(€ million)	Dec. 31, 2016	Additions	Deductions	Currency translation differences	Other changes	Dec. 31, 2017
Deferred tax liabilities	59	4	(107)	(8)	87	35
<b>Total</b>	<b>59</b>	<b>4</b>	<b>(107)</b>	<b>(8)</b>	<b>87</b>	<b>35</b>

The item 'Other changes', which amounted to positive €87 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €40 million); (ii) the positive tax effects (€48 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; (iii) other changes (negative €1 million). A breakdown of deferred tax assets is provided in Note 17 'Deferred tax assets'.

## 28 Other non-current liabilities

Other non-current liabilities of €1 million (€3 million at December 31, 2016) were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Fair value on derivatives financial instruments	3	1
Trade and other payables	-	-
<b>Total</b>	<b>3</b>	<b>1</b>

The fair value of derivative financial instruments is commented on Note 29 'Derivative financial instruments'.

## 29 Derivative financial instruments

(€ million)	Dec. 31, 2016		Dec. 31, 2017	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
<b>Derivative contracts qualified for hedge accounting</b>				
<i>Interest rate contracts (Spot component)</i>				
- purchase	-	3	-	1
- sale	-	-	-	-
<i>Forward currency contracts (Spot component)</i>				
- purchase	10	4	3	7
- sale	1	96	72	-
<i>Forward currency contracts (Forward component)</i>				
- purchase	3	3	-	-
- sale	-	19	(14)	2
<i>Forward commodity contracts (Forward component)</i>				
- purchase	1	-	2	-
- sale	-	-	-	-
<b>Total derivative contracts qualified for hedge accounting</b>	<b>15</b>	<b>125</b>	<b>63</b>	<b>10</b>
<b>Derivative contracts not qualified for hedge accounting</b>				
<i>Forward currency contracts (Spot component)</i>				
- purchase	11	7	1	10
- sale	4	60	38	-
<i>Forward currency contracts (Forward component)</i>				
- purchase	2	-	1	(1)
- sale	-	11	(6)	-
<i>Forward commodity contracts (Forward component)</i>				
- purchase	-	-	-	-
- sale	-	-	-	-
<b>Total derivative contracts not qualified for hedge accounting</b>	<b>17</b>	<b>78</b>	<b>34</b>	<b>9</b>
<b>Total derivative contracts</b>	<b>32</b>	<b>203</b>	<b>97</b>	<b>19</b>
Of which:				
- current	30	197	91	17
- non-current (including IRS, note 24 'Long-term debt and current portion of long-term debt')	2	6	6	2

The derivative contracts fair value hierarchy is level 2.

Purchase and sale commitments on derivative contracts are detailed as follows:

(€ million)	Dec. 31, 2016		Dec. 31, 2017	
	Assets	Liabilities	Assets	Liabilities
<b>Purchase commitments</b>				
Derivative contracts qualified for hedge accounting:				
- interest rate contracts	-	1,450	-	250
- currency contracts	292	670	318	615
- commodity contracts	6	-	5	-
Derivative contracts not qualified for hedge accounting:				
- currency contracts	389	334	222	734
	<b>687</b>	<b>2,454</b>	<b>545</b>	<b>1,599</b>
<b>Sale commitments</b>				
Derivative contracts qualified for hedge accounting:				
- currency contracts	69	1,963	1,975	285
Derivative contracts not qualified for hedge accounting:				
- currency contracts	348	1,929	1,304	71
	<b>417</b>	<b>3,892</b>	<b>3,279</b>	<b>356</b>

The fair value of derivative instruments was determined using valuation models commonly used in the financial sector and based on year-end market data (exchange and interest rates).

The fair value of forward contracts (forward outright and currency swaps) was determined by comparing the net present value at contractual conditions of forward contracts outstanding at December 31, 2017, with their present value recalculated at year-end market conditions. The model used is the Net Present Value model, which is based on the forward contract exchange rate, the year-end exchange rate and the respective forward interest rate curves.

A liability of €1 million (€3 million at December 31, 2016) relating to the fair value of an interest rate swap has been recorded under Note 24 'Long-term debt and current portion of long-term'. The fair value of interest rate swaps was determined by comparing the net present value at contractual conditions of swaps outstanding at December 31, 2017 with their present value recalculated at period-end market conditions. The model used is the Net Present Value model, which is based on EUR forward interest rates.

Cash flow hedge transactions related to forward purchase and sale transactions (forward outright and currency swaps).

The cash flows and the income statement impact of hedged highly probably forecast transactions at December 31, 2017 are expected to occur up until 2019.

During 2017, there were no cases of hedged items being no longer considered highly probable.

The positive fair value of derivatives qualified for hedge accounting at December 31, 2017 totalled €63 million (€15 million at December 31, 2016). The spot component of these derivatives of €75 million (€11 million at December 31, 2016) was deferred in a hedging reserve in equity (€64 million; €10 million at December 31, 2016) and recorded as finance income and expense (€11 million; €1 million at December 31, 2016), while the forward component, which was not designated as a hedging instrument, was recognised as finance income and expense (-€14 million; €3 million at December 31, 2016).

With regard to commodities contracts, the forward component of €2 million (€1 million at December 31, 2016) was suspended in the hedging reserve.

The negative fair value of derivative qualified for hedge accounting at December 31, 2017, analysed in Note 23 'Other current liabilities' was €10 million (€125 million at December 31, 2016). The spot component of these derivatives of €7 million was deferred in a hedging reserve in equity (€7 million; €93 million at December 31, 2016) and the forward component was recorded as finance income and expense (€2 million; €22 million at December 31, 2016).

The change in the hedging reserve between December 31, 2016 and December 31, 2017 was due to fair value changes in hedges that were effective for the whole year; new hedging relations designated during the year; and to the transfer of hedging gains or losses from equity to the income statement either because the hedged transactions affected profit or loss, or following the termination of the hedge against risk exposures which are no longer certain or highly probable.

(€ million)	Dec. 31, 2016	Profit for the period	Loss for the period	EBITDA adjusted profits	EBITDA adjusted losses	Gains due to cancellation of underlying	Losses due to cancellation of underlying	Dec. 31, 2017
<b>Exchange rate hedge reserve</b>								
Saipem SpA	(80)	168	(50)	(98)	115	(4)	1	52
Saipem SA	9	42	(45)	(76)	71	(3)	2	-
Sofresid SA	(141)	46	-	(21)	96	-	-	(20)
Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	(30)	19	(13)	(24)	50	(1)	3	4
Saipem Ltd	2	4	(6)	(2)	2	-	-	-
Saipem Misr for Petroleum Services (SAE)	-	33	(14)	(19)	9	-	-	9
Servizi Energia Italia SpA	-	5	(1)	(1)	-	-	-	3
Saimexicana SA de Cv	-	3	(2)	(2)	1	-	-	-
Snamprogetti Saudi Arabia Co Ltd Llc	(1)	4	(1)	(2)	-	-	1	1
Saudi Arabian Saipem Ltd	(2)	1	-	-	1	-	-	-
<b>Total exchange rate hedge reserve</b>	<b>(243)</b>	<b>325</b>	<b>(132)</b>	<b>(245)</b>	<b>345</b>	<b>(8)</b>	<b>7</b>	<b>49</b>
<b>Commodity hedge reserve</b>								
Saipem Ltd	1	1	-	-	-	-	-	2
<b>Total commodity hedge reserve</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>Interest rate hedge reserve</b>								
Saipem SpA	(1)	1	-	-	-	-	-	-
Saipem Finance International BV	(2)	-	-	-	-	-	2	-
<b>Total interest rate hedge reserve</b>	<b>(3)</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>
<b>Total hedge reserve</b>	<b>(245)</b>	<b>327</b>	<b>(132)</b>	<b>(245)</b>	<b>345</b>	<b>(8)</b>	<b>9</b>	<b>51</b>

During the year, operating revenues and expenses were adjusted by a net negative amount of €100 million to reflect the effects of hedging.

Information on hedged risks and carrying amounts and the related effect on income statement and equity are provided in Note 37 'Guarantees, commitments and risks'. Information on hedging policy is provided in Note 3 'Summary of significant accounting policies' in the 'Financial risk management' section.

## SHAREHOLDERS' EQUITY

### 30 Non-controlling interests

Non-controlling interests at December 31, 2017 amounted to €41 million (€19 million at December 31, 2016). The composition of the non-controlling interests is shown below.

(€ million)	Net profit (loss) for the year		Shareholders' equity	
	2016	2017	2016	2017
ER SAI Caspian Contractor Llc	-	10	5	13
Saudi Arabian Saipem Ltd	4	6	10	19
Snamprogetti Engineering & Contracting Co Ltd	2	4	2	6
Other	1	1	2	3
<b>Total</b>	<b>7</b>	<b>21</b>	<b>19</b>	<b>41</b>

During 2017 there were no changes in ownership interests that did not result in loss or acquisition of control.

### 31 Saipem's shareholders' equity

Saipem's shareholders' equity at December 31, 2017 amounted to €4,558 million (€4,866 million at December 31, 2016) and was as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Share capital	2,191	2,191
Share premium reserve	1,750	1,049
Legal reserve	88	88
Investments carried at fair value	-	1
Cash flow hedge reserve	(182)	41
Available for sale financial instruments carried at fair value	-	(1)
Cumulative currency translation differences	32	(154)
Employee defined benefits reserve	(20)	(21)
Other	2	2
Retained earnings	3,161	1,786
Net profit (loss) for the year	(2,087)	(328)
Negative reserve for treasury shares in portfolio	(69)	(96)
<b>Total</b>	<b>4,866</b>	<b>4,558</b>

Saipem's shareholders' equity at December 31, 2017 included distributable reserves of €1,668 million. Some of which are subject to taxation upon distribution. A deferred tax liability has been recorded in relation to the share of reserves that may potentially be distributed (€15 million).

### 32 Share capital

At December 31, 2017, the share capital of Saipem SpA, fully paid-up, amounted to €2,191 million, corresponding to 1,010,977,439 shares, none with a nominal value, of which 1,010,966,841 are ordinary shares and 10,598 savings shares. As a result of the reverse stock split that took place in May 2017 and resolved at the Extraordinary Shareholders Meeting held on April 28, 2017 the ratio of a new ordinary share for every ten existing shares and of a new savings share for every ten existing savings shares, share capital now consists of 1,010,966,841 ordinary shares and 10,598 savings shares, for a total of 1,010,977,439 shares none with a nominal value. On April 28, 2017, the Annual Shareholders' Meeting resolved to forego the distribution of a dividend for ordinary shares and for savings shares.

### 33 Share premium reserve

At December 31, 2017, the share premium reserve amounted to €1,049 million compared with December 31, 2016 (€1,750 million) and it decrease by €701 million following the covering of the loss reported in Saipem's financial statements 2016.

## 34 Other reserves

At December 31, 2017, 'Other reserves' amounted to negative €44 million (€80 million at December 31, 2016) and consisted of the following items:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Legal reserve	88	88
Investments carried at fair value	-	1
Cash flow hedge reserve	(182)	41
Available for sale financial instruments carried at fair value	-	(1)
Cumulative currency translation differences	32	(154)
Employee defined benefits reserve	(20)	(21)
Other	2	2
<b>Total</b>	<b>(80)</b>	<b>(44)</b>

### Legal reserve

At December 31, 2017, the legal reserve stood at €88 million. This represents the portion of profits of the parent company Saipem SpA, accrued as per Article 2430 of the Italian Civil Code, that cannot be distributed as dividends.

### Investments carried at fair value

The reserve, positive for €1 million, includes the change in fair value of the investments in Nagarjuna Oil Refinery Ltd and Nagarjuna Fertilizers and Chemicals Ltd.

### Cash flow hedge reserve

This reserve showed a positive balance at period end of €41 million (negative balance of €182 million at December 31, 2016), which related to the fair value of interest rate swaps, commodity hedges and the spot component of foreign exchange risk hedges at December 31, 2017.

The cash flow hedge reserve is shown net of tax effects of €10 million (€63 million at December 31, 2016).

### Available for sale financial instruments carried at fair value

The negative reserve of €1 million includes the fair value of financial instruments available for sale.

### Cumulative currency translation differences

This reserve amounted to negative €154 million (positive €32 million at December 31, 2016) and related to exchange rate differences arising from the translation into euro of financial statements denominated in functional currencies other than euro (mainly the US dollar).

### Employee defined benefits reserve

This reserve is used to recognise remeasurements of employee defined benefit plans. At December 31, 2017, it had a negative balance of €21 million (negative €20 million at December 31, 2016). The reserve is shown net of tax effects.

### Other

This item amounted to €2 million (€2 million at December 31, 2016). At December 31, 2017, only the revaluation reserve comprised of the positive revaluation balance following the application of Italian Law No. 413 dated December 30, 1991, Article 26, remains in place. If distributed, 5% of the reserve is to form part of the taxable income and is subject to taxation at 24%.

## 35 Negative reserve for treasury shares in portfolio

The negative reserve amounts to €96 million (€69 million at December 31, 2016) and it includes the value of treasury shares for the implementation of stock grant plans for Group's senior managers.

As a result of the reverse stock split that took place in May 2017 and resolved at the Extraordinary Shareholders Meeting held on April 28, 2017 the ratio of a new ordinary share for every ten existing shares and of a new savings share for every ten existing savings shares, the number of treasury shares went from 71,061,344 at December 31, 2016 to 14,943,059 shares at December 31, 2017 (including purchases made during 2017 of 7,841,200 shares for a counter value of €27,071 thousand and the allocation of 4,275 shares as part of the 2016 stock grant plan).

Taking into account the operation described above, the breakdown of treasury shares is as follows:

	Number of Shares	Average cost (€)	Total cost (€ million)	Share capital (%)
Treasury shares held at January 1, 2017 <sup>(1)</sup>	7,106,134	9.750	69,282	0.70
Purchases for 2017	7,841,200			
Stock grant 2016	(4,275)			
<b>Treasury shares held at December 31, 2017</b>	<b>14,943,059</b>	<b>6.446</b>	<b>96,325</b>	<b>1.48</b>

(1) Post reverse stock split number.

As at December 31, 2017, the share capital amounted to €2,191,384,693. On the same day, the number of shares in circulations was 996,034,380.

### Reconciliation of statutory net profit (loss) for the year and shareholders' equity to consolidated net profit (loss) for the year and shareholders' equity

(€ million)	Dec. 31, 2016		Dec. 31, 2017	
	Net profit (loss) for the year	Shareholders' equity	Net profit (loss) for the year	Shareholders' equity
<b>As reported in Saipem SpA's financial statements</b>	<b>(808)</b>	<b>3,948</b>	<b>(496)</b>	<b>3,534</b>
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	(993)	723	219	589
Consolidation adjustments, net of effects of taxation:				
- difference between purchase cost and underlying book value of shareholders' equity	(4)	797	(3)	794
- elimination of unrealised intercompany profits (losses)	37	(310)	32	(282)
- other adjustments	(312)	(273)	(59)	(36)
<b>Total shareholders' equity</b>	<b>(2,080)</b>	<b>4,885</b>	<b>(307)</b>	<b>4,599</b>
Non-controlling interests	(7)	(19)	(21)	(41)
<b>As reported in the consolidated financial statements</b>	<b>(2,087)</b>	<b>4,866</b>	<b>(328)</b>	<b>4,558</b>

## 36 Additional information

### Supplement to cash flow statement

(€ million)	Dec. 31, 2017
<b>Analysis of disposals of consolidated entities and business branches</b>	
Current assets	47
Non-current assets	3
Net liquidity (net borrowings)	37
Current and non-current liabilities	(64)
<b>Net effect of disposals</b>	<b>23</b>
Fair value of interest after control has ceased	-
Gain (loss) on disposals	15
Non-controlling interests	-
<b>Total sale price</b>	<b>38</b>
less:	
Cash and cash equivalents	(37)
<b>Cash flows from disposals</b>	<b>1</b>

Disposals in 2017 concerned the sale of the business Travaux Maritime.

## 37 Guarantees, commitments and risks

### Guarantees

Guarantees amounted to €5,525 million (€7,110 million at December 31, 2016), and were as follows:

(€ million)	Dec. 31, 2016			Dec. 31, 2017		
	Unsecured	Other guarantees	Total	Unsecured	Other guarantees	Total
Joint ventures and associates	202	54	256	207	56	263
Consolidated companies	183	1,334	1,517	47	720	767
Own	16	5,321	5,337	-	4,495	4,495
<b>Total</b>	<b>401</b>	<b>6,709</b>	<b>7,110</b>	<b>254</b>	<b>5,271</b>	<b>5,525</b>

Other guarantees issued for consolidated companies amounted to €720 million (€1,334 million at December 31, 2016) and related to independent guarantees given to third parties relating mainly to bid bonds and performance bonds.

Guarantees issued to/through related parties are detailed in Note 49 'Transactions with related parties'.  
For details on amounts relating to completed projects in Algeria, see Note 53 'Additional information: Algeria'.

## Commitments

Saipem SpA has provided commitments towards customers and/or other beneficiaries (financial and insurance institutions, export credit agencies) relating to the fulfilment of contractual obligations entered into by itself and/or by its subsidiaries or associated companies in the event of non-performance and payment of any damages arising from non-performance.

These commitments guarantee contracts whose overall value amounted to €46,336 million (€48,354 million at December 31, 2016), including both work already performed and the relevant portion of the backlog of orders at December 31, 2017.

The repayment obligations of bank loans granted to Saipem Group companies are generally supported by guarantees issued by the parent company Saipem SpA and other Group companies. The repayment obligations of the Group's bond issues are covered by guarantees issued by the parent company Saipem SpA and other Group companies.

## Risk management

For information on risk management, both financial and industrial, please refer to the analytical description in Note 3 'Summary of significant accounting policies' in the paragraph 'Financial risk management' and the 'Risk management' section of the 'Directors' Report'.

## Additional information on financial instruments

### FINANCIAL INSTRUMENTS - CARRYING AMOUNTS AND EFFECT ON INCOME STATEMENT AND EQUITY

The carrying amounts and effect on income statement and equity of financial instruments were as follows:

(€ million)	Carrying amount	Income (charges) recorded to income statement	Income (charges) recorded to other items of comprehensive income
<b>Financial instruments held for trading</b>			
Non-hedging derivatives <sup>(a)</sup>	25	85	-
<b>Available-for-sale financial instruments</b>			
Securities	69	-	(1)
<b>Financial assets being fixed assets</b>			
Investments measured at fair value	1	-	-
<b>Receivables and payables and other assets (liabilities) measured at amortised cost</b>			
Trade and other receivables <sup>(b)</sup>	2,407	(101)	-
Financial receivables <sup>(c)</sup>	4	(208)	-
Trade and other payables <sup>(d)</sup>	4,036	27	-
Financial payables <sup>(e)</sup>	3,117	(7)	-
Net hedging derivative assets (liabilities) <sup>(f)</sup>	53	(100)	297

(a) The income statement effects relate only to the income (expense) indicated in note 43 'Finance income (expense)'.

(b) The income statement effects were recognised in 'Purchases, services and other expenses' of €24 million (relating to impairments net of use) and in 'Finance income (expense)' of €77 million (relating to currency translation gains (losses) arising from adjustments to the year-end exchange rate).

(c) The income statement effects of €208 million were recognised in 'Finance income (expense)';

(d) Income statement effects of €27 million relating to currency translation gains (losses) arising from adjustments to the year-end exchange rate were recognised in 'Finance income (expense)'.

(e) The income statement effects of €87 million arising from adjustments to the year-end exchange rate were recognised in 'Finance income (expense)' and of €94 million in 'Finance income (expense)' related to net borrowings;

(f) Income statement effects of €100 million were recognised in 'Net sales from operations' and in 'Purchases, services and other costs'.

## NOTIONAL AMOUNTS OF DERIVATIVES

The notional amount of a derivative is an amount used as a reference to calculate the contractual payments to be exchanged. This amount may be expressed in terms of a monetary or physical quantity (e.g. barrels, tonnes, etc.). Monetary quantities in foreign currencies are converted into euros at the exchange rate prevailing at year end.

Notional amounts of derivatives do not represent the amounts actually exchanged between the parties and do not therefore constitute a measure of Saipem's credit risk exposure. This is instead represented by the fair value of derivative contracts at year end.

## INTEREST RATE RISK MANAGEMENT

Saipem only enters into interest rate swaps, with the purpose of managing its interest rate risk.

The table below shows swaps entered into, weighted average interest rates and maturities. Average interest rates are based on year end rates and may be subject to changes that could have a significant impact on future cash flows. Comparisons between

the average buying and selling rates are not indicative of the fair value of derivatives. In order to determine their fair value, the underlying transactions must be taken into account.

		Dec. 31, 2016	Dec. 31, 2017
Notional value	(€ million)	1,450	250
Weighted average rate received	(%)	-	(0.329)
Weighted average rate paid	(%)	0.129	0.01
Weighted average maturity	(years)	4	2

The underlying hedged transactions are expected to occur by December 2019.

#### EXCHANGE RATE RISK MANAGEMENT

Saipem enters into various types of forward foreign exchange contracts to manage its exchange rate risk. For contracts involving the exchange of two foreign currencies, both the amount received and the amount sold are indicated.

(€ million)	Notional amount at Dec. 31, 2016	Notional amount at Dec. 31, 2017
Forward foreign exchange contracts	2,624	1,746

The table below shows forward foreign exchange contracts and other instruments used to manage the exchange rate risk for the principal currencies.

(€ million)	Notional amount at Dec. 31, 2016		Notional amount at Dec. 31, 2017	
	Purchase	Sell	Purchase	Sell
AUD	6	3	2	13
BRL	-	52	-	-
CAD	4	25	12	2
CHF	-	1	3	2
CLP	-	-	62	-
EUR	134	-	136	23
GBP	131	15	88	19
JPY	17	9	2	-
KWD	3	217	-	475
MXN	-	-	-	46
NOK	27	22	23	10
RUB	-	-	5	4
SAR	73	324	119	360
SGD	498	48	388	71
USD	792	3,593	1,049	2,610
<b>Total</b>	<b>1,685</b>	<b>4,309</b>	<b>1,889</b>	<b>3,635</b>

The table below shows the hedged future cash flows at December 31, 2017, by time period of occurrence and expressed in euro.

(€ million)	First quarter 2018	Second quarter 2018	Third quarter 2018	Fourth quarter 2018	2019 and beyond	Total
Revenues	805	785	579	399	594	<b>3,162</b>
Expenses	389	424	316	242	426	<b>1,797</b>

#### COMMODITY PRICE RISK

Saipem only enters into commodity contracts with the purpose of managing its commodity price risk exposure. The following table shows hedged cash flows at December 31, 2017 by time period of occurrence:

(€ million)	First quarter 2018	Second quarter 2018	Third quarter 2018	Fourth quarter 2018	2019 and beyond	Total
Expenses	-	2	3	-	-	<b>5</b>

## LEGAL PROCEEDINGS

The Group is a party in judicial proceedings. Provisions for legal risks are made on the basis of information currently available, including information acquired by external consultants providing the Company with legal support. Information available to the Company for the purposes of risk assessment regarding criminal proceedings is by its very nature incomplete due to the principle of pre-trial secrecy. A brief summary of the most important disputes is provided below.

### Algeria

**Investigations in Italy:** on February 4, 2011, the Milan Public Prosecutor's office, through Eni, requested the transmission of documentation pursuant to Article 248 of the Code of Criminal Procedure. This related to the activities of Saipem Group companies in Algeria in connection with an allegation of international corruption. The crime of 'international corruption' specified in the request is one of the offences punishable under Legislative Decree No. 231 of June 8, 2001 in connection with the direct responsibility of collective entities for certain crimes committed by their own employees.

The collection of documentation was commenced in prompt compliance with the request, and on February 16, 2011, Saipem filed the material requested.

On November 22, 2012, Saipem received a notification of inquiry from the Milan Public Prosecutor's office related to alleged unlawful administrative acts arising from the crime of international corruption pursuant to Article 25, paragraphs 2 and 3 of Legislative Decree No. 231/2001, together with a request to provide documentation regarding a number of contracts connected with activities in Algeria. This request was followed by notification of a seizure order on November 30, 2012, two further requests for documentation on December 18, 2012 and February 25, 2013 and the issue of a search warrant on January 16, 2013.

On February 7, 2013, a search was conducted, including at offices belonging to Eni SpA, to obtain additional documentation relating to intermediary agreements and subcontracts entered into by Saipem in connection with its Algerian projects. The subject of the investigations are allegations of corruption which, according to the Milan Public Prosecutor, occurred up until and after March 2010 in relation to a number of contracts the Company was awarded in Algeria.

Several former employees of the Company are involved in the proceedings, including the former Deputy Chairman and CEO, the former Chief Operating Officer of the Engineering & Construction Business Unit and the former Chief Financial Officer. The Company is collaborating fully with the Prosecutor's Office and rapidly implemented decisive managerial and administrative restructuring measures, irrespective of any liability that might result from the investigations. In agreement with the Board of Statutory Auditors and the Internal Control Bodies, and having duly informed the Prosecutor's Office, Saipem looked into the contracts that are subject to investigation, and to this end appointed an external legal firm. On July 17, 2013, the Board of Directors analysed the conclusions reached by the external consultants following an internal investigation carried out in relation to a number of brokerage contracts and subcontracts regarding projects in Algeria. The internal investigation was based on the examination of documents and interviews of personnel from the Company and other companies in the Group, excluding those, that to the best knowledge of the Company, would be directly involved in the criminal investigation so as not to interfere in the investigative activities of the Prosecutor. The Board, confirming its full cooperation with the investigative authorities, has decided to convey the findings of the external consultants to the Public Prosecutor of Milan, for any appropriate assessment and initiatives under its responsibility in the wider context of the ongoing investigation. The consultants reported to the Board: (i) that they found no evidence of payments to Algerian public officials through the brokerage contracts or subcontracts examined; (ii) that they found violations, deemed detrimental to the interests of the Company, of internal rules and procedures – in force at the time – in relation to the approval and management of brokerage contracts and subcontracts examined and a number of activities in Algeria. The Board decided to initiate legal action against certain former employees and suppliers in order to protect the interests of the Company, reserving the right to take any further action necessary should additional information emerge.

On June 14, 2013, January 8, 2013 and July 23, 2014 the Milan Public Prosecutor's office submitted requests for extensions to the preliminary investigations. On October 24, 2014, notice was received of a request from the Milan Public Prosecutor to gather evidence before trial by way of questioning the former Chief Operating Officer of the Saipem Engineering & Construction Business Unit and another former manager of Saipem, who are both under investigation in the criminal proceedings. After the request was granted, the Judge for the Preliminary Hearing in Milan set hearings for December 1 and 2, 2014. On January 15, 2015, Saipem SpA defence counsel received notice from the Milan Public Prosecutor's office of the conclusion of preliminary investigations, pursuant to Article 415-bis of the Italian code of criminal procedure. Notice was also received by eight physical persons and the legal person of Eni SpA. In addition to the crime of 'international corruption' specified in the request from the Milan Public Prosecutor's office, the notice also contained an allegation against seven physical persons of a violation of Article 3 of Legislative Decree No. 74 of March 10, 2000. This concerned the filing of fraudulent tax returns, in connection with the recording in the books of Saipem SpA of *'brokerage costs deriving from the agency agreement with Pearl Partners signed on October 17, 2007, as well as Addendum No. 1 to the agency agreement entered into August 12, 2009'*, which is alleged to have led subsequently *'to the inclusion in the consolidated tax return of Saipem SpA of profits that were lower than the real total by the following amounts: 2008: -€85,935,000; 2009: -€54,385,926'*.

**Criminal proceedings in Italy:** on February 26, 2015, Saipem SpA defence counsel received notice from the Judge for the Preliminary Hearing of the scheduling of a preliminary hearing, together with a request for committal for trial filed by the Milan Public Prosecutor's office on February 11, 2015. Notice was also received by eight physical persons and the legal person of Eni SpA. The hearing was scheduled by the Judge for the Preliminary Hearing for May 13, 2015. During the hearing, the Revenue Office appeared as plaintiff in the proceedings whereas other requests to be admitted as plaintiff were rejected.

On October 2, 2015, the Judge for the Preliminary Hearing rejected the questions of unconstitutionality and those relating to the statute of limitations presented by the defence attorneys and determined as follows:

- (i) ruling not to proceed for lack of jurisdiction in regard to one of the accused;
- (ii) ruling of dismissal in regard to all of the accused in relation to the allegation that the payment of the commissions for the MLE project by Saipem (approximately €41 million) may have served to enable Eni to acquire the Algerian ministerial approvals for

the acquisition of First Calgary and for the expansion of a field in Algeria (CAFC). This measure also contains the decision to acquit Eni, the former CEO of Eni and an Eni executive in regard to any other charge;

- (iii) a decree that orders trial, among others, for Saipem and three former Saipem employees (the former Deputy Chairman and CEO, the former Chief Operating Officer of the Engineering & Construction Business Unit and the former Chief Financial Officer) with reference to the charge of international corruption formulated by the Public Prosecutor's office according to which the accused were complicit in enabling Saipem to win seven contracts in Algeria on the basis of criteria of mere favouritism. For the physical persons only (not for Saipem) the committal for trial was pronounced also with reference to the allegation of fraudulent statements (tax offences) brought by the Public Prosecutor's office.

On the same date, at the end of the hearing relating to a section of the main proceedings, the Judge for the Preliminary Hearing of Milan issued a plea bargaining sentence in accordance with Article 444 of the code of criminal procedure for a former executive of Saipem SpA.

On November 17, 2015, the Public Prosecutor of Milan and the Prosecutor General at the Milan Court of Appeal filed an appeal with the Court of Cassation against the first two measures. On February 24, 2016 the Court of Cassation upheld the appeal lodged by the Public Prosecutor of Milan and ordered the transmission of the trial documents to a new Judge for the Preliminary Hearing at the Court of Milan.

With reference to this branch of the proceedings (the so-called 'Eni branch'), on July 27, 2016, the new Judge for the Preliminary Hearing ordered the committal for trial of all the accused parties.

On November 11, 2015, on the occasion of publication of the 2015 corporate liability report of the office of the Public Prosecutor in Milan, it was affirmed that: *'a ruling was recently issued by the Judge for the Preliminary Investigation for the preventive seizure of assets belonging to the accused parties for the sum of €250 million. The ruling confirms the freezing previously decided upon by the foreign authorities of monies deposited in bank accounts in Singapore, Hong Kong, Switzerland and Luxembourg, totalling in excess of €100 million'*. While Saipem is not the target of any such measures, it has come to its attention that the seizure in question involves the personal assets of the Company's former Chief Operating Officer and two other persons accused.

At the same time, following the decree ordering the trial pronounced on October 2, 2015 by the Judge for the Preliminary Hearing, the first hearing before the Court of Milan in the proceedings of the so-called 'Saipem branch' was held on December 2, 2015. During said hearing, Sonatrach asked to be admitted as plaintiff only against the physical persons charged. The Movimento cittadini algerini d'Italia e d'Europa likewise put forward a request to be admitted as plaintiff. The Revenue Office confirmed the request for admission as plaintiffs only against the physical persons accused of having made fraudulent tax returns. At the hearing of January 25, 2016, the Court of Milan rejected the request put forward by Sonatrach and the Movimento cittadini algerini d'Italia e di Europa to be admitted as plaintiff. The Court adjourned to February 29, 2016, reserving the right to pass judgement on the claims put forward by the accused of invalidity of the committals to trial.

At the hearing of February 29, 2016, the Court combined the proceedings with another pending case against a sole defendant (a physical person against whom Sonatrach had appeared as a plaintiff) and rejected the claims of invalidity of the committal to trial, calling on the Public Prosecutor to reformulate the charges against a sole defendant and adjourning the hearing to March 21, 2016. The Court then adjourned the proceedings to the hearing of December 5, 2016 in order to assess whether to combine it with the proceedings described earlier (the so-called Eni branch) for which the Judge for the Preliminary Hearing ordered the committal for trial of all the accused parties on July 27, 2016.

With the order of December 28, 2016 the President of the Court of Milan authorised the abstention request of the Chairman of the Panel of judges.

At the hearing on January 16, 2017, the two proceedings (the so-called Saipem branch and the so-called Eni branch) were combined before a new panel appointed on December 30, 2016.

Once the hearings on evidence finished with the hearing of February 12, 2018, in the subsequent hearings of February 19, 2018 and February 26, 2018, the Public Prosecutor proceeded with the indictment.

Generic extenuating circumstances were not considered to be initially attributable to the defendants and, conversely, that the aggravating circumstance of the transnational crime allegedly subsisted, the Public Prosecutor formulated sentencing requests for the accused natural persons.

With regard to Saipem SpA and Eni SpA the Public Prosecutor requested a fine of €900,000 as the sentence for each company. Furthermore, the Public Prosecutor has requested a 'seizure of assets', equal to currently seized assets, relating to some seizures previously carried out against certain natural persons accused. Therefore, the request for seizure of assets does not concern Saipem SpA.

At the hearing of March 5, 2018:

- (i) the Italian Revenue Agency has requested the conviction of only the physical persons indicated as was requested by the Public Prosecutor with the conviction of only the physical persons charged for compensation of the pecuniary and non-pecuniary damage in favour of the Italian Revenue Agency to be liquidated on an equitable basis and with a provisional amount of €10 million;
- (ii) Sonatrach has requested the conviction of the accused Samyr Ourayed and sentencing of the latter to the compensation of the damage to be liquidated in equitable way.

The Court communicated the calendar for the hearing dates for defence arguments, scheduled for a period between March 19, 2018 to July 2, 2018.

**Request for documents from the US Department of Justice:** at the request of the US Department of Justice ('DoJ'), in 2013 Saipem SpA entered into a 'tolling agreement' which extended by 6 months the limitation period applicable to any possible violations of federal laws of the United States in relation to previous activities of Saipem and its subsidiaries. The tolling agreement, which has been renewed until November 29, 2015, does not constitute an admission by Saipem SpA of having committed any unlawful act, nor does it imply any recognition on the Company's part of United States jurisdiction in relation to any investigation or proceedings. Saipem therefore offered its complete cooperation in relation to investigations by the Department of Justice, which on April 10, 2014 made a request for documentation relating to past activities of the Saipem Group in Algeria,

with which Saipem has complied. On November 29, 2015, the tolling agreement expired and, at the time of writing, no request for an extension has been received from the Department of Justice.

**Proceedings in Algeria:** in 2010, proceedings were initiated in Algeria regarding various matters and involving 19 parties investigated for various reasons (so-called 'Sonatrach 1 investigation'). The Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures SpA ('Sonatrach') appeared as plaintiff in these proceedings and the Algerian Trésor Public also applied to appear as a plaintiff.

The Algerian company Saipem Contracting Algérie SpA ('Saipem Contracting Algérie') is also part of these proceedings regarding the manner in which the GK3 contract was assigned by Sonatrach. In the course of these proceedings, some bank accounts denominated in local currency of Saipem Contracting Algérie were frozen.

In particular, in 2012 Saipem Contracting Algérie received formal notice of the referral to the Chambre d'accusation at the Court of Algiers of an investigation underway into the company regarding allegations that it took advantage of the authority or influence of representatives of a government-owned industrial and trading company in order to inflate prices in relation to contracts awarded by that company. The GK3 contract was awarded in June 2009 and had an equivalent value of €433.5 million (at the exchange rate in effect when the contract was awarded).

At the beginning of 2013, the 'Chambre d'accusation' ordered Saipem Contracting Algérie to stand trial and further ordered that the aforementioned bank accounts remain frozen. According to the prosecution, the price offered was 60% over the market price. The prosecution also claimed that, following a discount negotiated between the parties subsequent to the offer, this alleged increase was reduced by up to 45% of the price of the contract awarded. In April 2013 and in October 2014, the Algerian Supreme Court rejected a request to unfreeze the bank accounts that had been made by Saipem Contracting Algérie in 2010. The documentation was then transmitted to the Court of Algiers which, in the hearing of March 15, 2015, adjourned the proceedings to the hearing of June 7, 2015, during which, in the absence of certain witnesses, the Court officially handed over the case to a criminal court. The trial commenced with the hearing fixed for December 27, 2015. In the hearing of January 20, 2016, the Algiers Public Prosecutor requested the conviction of all 19 defendants accused in the 'Sonatrach 1' trial.

The Algiers Public Prosecutor requested that Saipem Contracting Algérie be fined 5 million Algerian dinars (approximately €43,000 at the current rate of exchange).

The Algiers Public Prosecutor also requested the confiscation of the alleged profit, that will be ascertained by the Court, of all 19 parties whose conviction has been requested (including Saipem Contracting Algérie).

For the offence with which Saipem Contracting Algérie is charged, local regulations prescribe a fine as the main punishment (up to a maximum of about €50,000) and allow, in the case of the alleged offence, additional sanctions such as the confiscation of the profit arising from the alleged offence (which would be the equivalent of the amount allegedly over the market price of the GK3 contract as far as the profit is ascertained by the judicial authority) and/or disqualification sanctions.

On February 2, 2016, the Court of Algiers issued the first instance ruling. Amongst other things, this ruling ordered Saipem Contracting Algérie to pay a fine of about 4 million Algerian Dinars (corresponding to about €34,000). In particular Saipem Contracting Algérie was held to be responsible, in relation to the call for bids for the construction of the GK3 gas pipeline, of 'an increase in price during the awarding of contracts signed with a public company of an industrial and commercial character in a way that causes benefit to be derived from the authority or influence of representatives of said company', an act punishable according to Algerian law. The ruling also returned two bank accounts denominated in local currency to Saipem Contracting Algérie. These held a total of about €70 million (amount calculated at the exchange rate as at December 31, 2017), which were frozen in 2010.

The customer Sonatrach, which appeared as plaintiff in the proceedings, reserved the right to pursue its claims in the civil courts. The request by the Algerian Trésor Civil to appear as plaintiff was rejected.

Pending the filing of the reasons thereof, the ruling of February 2, 2016 of the Court of Algiers was challenged in the Court of Cassation: by Saipem Contracting Algérie (which requested acquittal and had announced that it would challenge the decision); by the Prosecutor General (who had requested the imposition of a fine of 5 million Algerian dinars and the confiscation, requests that were rejected by the Court, which, as said, fined Saipem Contracting Algérie the lesser amount of about 4 million Algerian dinars); by the Trésor Civil (whose request to be admitted as plaintiff against Saipem Contracting Algérie had been – as already stated – rejected by the Court); by all the other parties sentenced, in relation to the cases concerning them.

Owing to these challenges, the decision of the Court of Algiers was fully suspended and pending the ruling of the Court of Cassation:

- the payment is suspended of the fine of approximately €34,000; and
- the unfreezing of the two banks accounts is suspended containing a total of about €70 million (amount calculated at the exchange rate obtaining at December 31, 2017). Sonatrach has not challenged the decision of the Court, consistently with its request, accepted by the Court, to be allowed to claim compensation subsequently in civil proceedings. This civil action was not initiated by Sonatrach.

The appeal before the Court of Cassation has not yet be scheduled.

In March 2013, the legal representative of Saipem Contracting Algérie was summoned to appear at the Court of Algiers, where he received verbal notification from the local investigating judge of the commencement of an investigation ('Sonatrach 2') underway 'into Saipem for charges pursuant to Articles 25a, 32 and 53 of Anti-Corruption Law No. 01/2006'. The investigating judge also requested documentation (Articles of Association) and other information concerning Saipem Contracting Algérie, Saipem and Saipem SA.

**Amicable Settlement of Mutual Differences - Saipem Sonatrach agreement - Press Release of February 14, 2018:** on February 14, 2018, the following joint press release was issued.

Sonatrach and Saipem announce the amicable settlement of mutual differences.

San Donato Milanese (MI), February 14, 2018 - Sonatrach and Saipem have decided to settle their mutual differences amicably and have signed an agreement to put an end to litigations in course concerning the contract for the construction of a gas liquefaction plant in Arzew (Arzew); the contract for the realisation of three trains of LPG, of an oil separation unit (LDPH) and of installations for the production of condensates in Hassi Messaoud (LPG); the contract for the realisation of the LZ2 24" LPG

pipeline (line and station) in Hassi R'Mel (LZ2); and the contract for the construction of a gas and production unit in the Menzel Ledjmet field on behalf of the association Sonatrach/FCP (MLE). This agreement is the result of constructive dialogue and represents an important step forward in relations between the two companies. Sonatrach and Saipem have expressed their satisfaction at having reached a definitive agreement that puts an end to litigations that were detrimental to both parties.

### **Ongoing investigations - Public Prosecutor's Office of Milan - Brazil**

On August 12, 2015, the Public Prosecutor's office of Milan served Saipem SpA with a notice of investigation and a request for documentation in the framework of new criminal proceedings, for the alleged crime of international corruption, initiated by the Court of Milan in relation to a contract awarded in 2011 by the Brazilian company Petrobras to Saipem SA (France) and Saipem do Brasil (Brazil). Investigations are still underway.

According to what was learned only through the press, this contract is being looked into by the Brazilian judicial authorities in relation to a number of Brazilian citizens, including a former associate of Saipem do Brasil.

In particular, on June 19, 2015, Saipem do Brasil learned through the media of the arrest (in regard to allegations of money laundering, corruption and fraud) of a former associate, as a result of a measure taken by the Brazilian Public Prosecutor's office of Curitiba, in the framework of a judicial investigation in progress in Brazil since March 2014 ('Lava Jato' investigation). On July 29, 2015, Saipem do Brasil then learned through the press that, in the framework of the conduct alleged against the former associate of Saipem do Brasil, the Brazilian Public Prosecutor's office also alleges that Petrobras was unduly influenced in 2011 to award Saipem do Brasil a contract called 'Cernambi' (for a value of approximately €115 million). This is purportedly deduced from the circumstance that in 2011, in the vicinity of the Petrobras headquarters, said former associate of Saipem do Brasil claims to have been the target of a robbery in which approximately 100,000 reais (approximately €26,000) just withdrawn from a credit institution were stolen from him. According to the Brazilian prosecutor, the robbery allegedly took place in a time period prior to the award of the aforesaid 'Cernambi' contract.

Saipem SpA is cooperating fully with the investigations and has started an audit with the assistance of a third-party consultant. The audit examined the names of numerous companies and persons reported by the media as being under investigation by the Brazilian judicial authorities. The audit report, issued on July 14, 2016, recognised the absence of communications or documents relating to transactions and/or financial movements between companies of the Saipem Group and the personnel of Petrobras under investigation. The audit report was forwarded by Saipem SpA to the Public Prosecutor's office of Milan and to Consob as a mark of transparency.

The witnesses heard in the criminal proceedings underway in Brazil against this former associate, as well as in the framework of the works of the parliamentary investigative committee set up in Brazil on the 'Lava Jato' case, have stated that they were unaware of any irregularities regarding Saipem's activities.

The hearing set for November 11, 2015, in which the former associate of Saipem do Brasil and another two defendants were to be questioned, has therefore been postponed to a later date to be set. Petrobras appeared as a plaintiff ('Assistente do Ministerio Publico') in the proceedings against the three physical persons charged. The proceedings were then resumed on June 9, 2017 as the Brazilian Attorney General considered that the conditions for keeping confidential an agreement signed in October 2015 by the former associate of Saipem do Brasil – who, with such agreement committed himself to substantiating with evidence some of the statements made – had ceased. The Attorney General noted in particular that attempts to substantiate such statements had not been successful, the reason why the content of the statements contained in the additional agreement had not been maintained. At the hearing on June 9, 2017, the depositions of the three defendants were obtained, among them the former associate of Saipem do Brasil and a former Petrobras official.

Saipem do Brasil's former associate, with regard to the theft of 100,000 Brazilian reais (approximately €26,000) in October 2011, said that money was needed to pay the costs of real estate for a company he was managing on behalf of a third party vis-à-vis Saipem (that is, the former Petrobras official charged in the same proceeding who confirmed that statement).

The former Saipem do Brasil associate also stated that the Saipem Group did not pay any bribes because Saipem's compliance system prevented this from happening. That statement was confirmed by the former Petrobras official charged in the same proceeding. The former associate of Saipem do Brasil and the former Petrobras official charged in the same proceeding, while offering a reconstruction of partially different facts, reported, that the possibility of some inappropriate payments was discussed with reference to certain contracts of Saipem do Brasil but in any case no payment was made by the Saipem Group. The former Saipem do Brasil associate and the former Petrobras official charged in the same proceeding stated that the contracts awarded by the client to the Saipem Group were won through regular bidding procedures. The first degree proceedings in Brazil against the former associate of Saipem do Brasil and another two defendants is ongoing.

The audit that was concluded in 2016 was relaunched with the support of the same third party consultant used earlier and with the same methodology in order to analyse some of the information mentioned during the depositions of June 9, 2017.

The Saipem Group has not received any notification in this regard from the Brazilian judicial authorities.

### **EniPower**

As part of the inquiries commenced by the Milan Public Prosecutor (criminal proceedings 2460/2003 R.G.N.R. pending at the Milan Public Prosecutor's office) into contracts awarded by EniPower to various companies, Snamprogetti SpA (now Saipem SpA as engineering and procurement services contractor), together with other parties, were served a notice informing them that they were under investigation, pursuant to Article 25 of Legislative Decree No. 231/2001. Preliminary investigations ended in August 2007, with a favourable outcome for Snamprogetti SpA, which was not included among the parties still under investigation for whom committals for trial were requested. Snamprogetti subsequently brought proceedings against the physical and legal persons implicated in transactions relating to the Company and reached settlements with a number of parties that requested the application of settlement procedures. Following the conclusion of the preliminary hearing, criminal proceedings continued against former employees of the above companies, as well as against employees and managers of a number of their suppliers, pursuant to Legislative Decree No. 231/2001. Eni SpA, EniPower SpA and Snamprogetti SpA presented themselves as plaintiffs in the

preliminary hearing. In the preliminary hearing related to the main proceeding of April 27, 2009, the judge for the preliminary hearing requested that all parties that did not request the application of plea agreements stand trial, with the exception of several parties for whom the statute of limitations now applied. In the hearing of March 2, 2010, the Court confirmed the admission as plaintiffs of Eni SpA, EniPower SpA and Saipem SpA against the defendants under the provisions of Legislative Decree No. 231/2001. The defendants of the other companies involved were also sued. Subsequently, at the hearing of September 20, 2011, sentence was passed which included several convictions and acquittals for numerous physical and legal defendants, the latter being deemed responsible for unlawful administrative acts, with fines being imposed and value confiscation for significant sums ordered. The Court likewise rejected the admission as plaintiffs of the parties accused of unlawful administrative acts pursuant to Legislative Decree No. 231/2001. The convicted parties challenged the above ruling within the set deadline. On October 24, 2013, the Milan Court of Appeal essentially confirmed the first instance ruling, which it modified only partially in relation to a number of physical persons, against whom it dismissed the charges, ruling that they had expired under the statute of limitations. The accused parties have filed an appeal with the Court of Cassation. On November 10, 2015, Criminal Section VI of the Supreme Court, in its ruling on the appeals lodged by the parties against the ruling of the Milan Court of Appeal, set aside the challenged ruling regarding legal persons, and the civil law rulings regarding physical persons and deferred a new ruling to another section of the Milan Court of Appeal which set the court date for November 28, 2017.

At the hearing of November 28, 2017, the Court of Appeal, ruling at the time of postponement by the Court of Cassation, upheld the first instance judgement, partially modifying it, excluding the liability of two legal persons and declaring that it would not proceed against a defendant who had, the meantime, died, confirming the rest of the sentence by the Court of Appeal which was not subject to annulment by the Court of Cassation. The grounds of the judgement are currently being filed.

### **Fos Cavaou**

With regard to the Fos Cavaou ('FOS') project for the construction of a regasification terminal, the client Société du Terminal Méthanier de Fos Cavaou ('STMFC', now Fosmax LNG) in January 2012 commenced arbitration proceedings before the International Chamber of Commerce in Paris ('Paris ICC') against the contractor STS [a French 'société en participation' made up of Saipem SA (50%), Technimont SpA (49%) and Sofregaz SA (1%)]. On July 11, 2011, the parties signed a mediation memorandum pursuant to the rules of Conciliation and Arbitration of the Paris ICC. The mediation procedure ended on December 31, 2011 without agreement having been reached, because Fosmax LNG refused to extend the deadline.

The brief filed by Fosmax LNG in support of its request for arbitration included a demand for payment of approximately €264 million for damages allegedly suffered, penalties for delays and costs for the completion of works ('mise en régie'). Of the total sum demanded, approximately €142 million was for loss of profit, an item excluded from the contract except for cases of wilful misconduct or gross negligence. STS filed its defence brief, including a counterclaim for compensation for damage due to excessive interference by Fosmax LNG in the execution of the works and for the payment of extra work not approved by the client (and reserving the right to quantify the amount as the arbitration proceeds). On October 19, 2012, Fosmax LNG lodged a 'Mémoire en demande'. Against this, STS lodged its own Statement of Defence on January 28, 2013, in which it filed a counterclaim for €338 million. The final hearing was held on April 1, 2014. On the basis of the award issued by the Arbitration Panel on February 13, 2015, Fosmax LNG paid STS the sum of €84,349,554.92, including interest on April 30, 2015. 50% of this amount is due to Saipem SA. On June 26, 2015, Fosmax LNG challenged the award before the French Conseil d'Etat, requesting its annulment on the alleged basis that the Arbitration Panel had erroneously applied private law to the matter instead of public law. On November 18, 2015 a hearing was held before the Conseil d'Etat. Subsequently to the submission of the Rapporteur Public, the judges concluded the discussion phase. The Rapporteur requested a referral to the Tribunal des Conflits. With its judgement of April 11, 2016, the Tribunal des Conflits held that the Conseil d'Etat had jurisdiction for deciding on the dispute regarding the appeal to overrule the arbitration award of February 12, 2015. On October 21, 2016, a hearing was held before the Conseil d'Etat and on November 9, the latter issued its own ruling, with which it partially nullified the award of February 13, 2015 for only the mise en régie costs (quantified by Fosmax in €36,359,758), stating that Fosmax should have relinquished such costs back to an arbitration tribunal, unless otherwise agreed by the parties.

On June 21, 2017, Fosmax notified Sofregaz, Technimont SpA and Saipem SA, of a request for arbitration, requesting that the aforementioned companies (as members of the STS) be condemned in full on the payment of the mise en régie costs as quantified above beyond delays and legal fees. The arbitration proceedings are in the initial phase.

Parallel with the aforementioned appeal before the Conseil d'Etat, on August 18, 2015, Fosmax LNG also filed an appeal with the Court of Appeal of Paris to obtain the annulment of the award and/or the declaration of nullity of the relevant exequatur, the enforceability of which had been recognised and of which Fosmax had been notified on July 24, 2015. On February 21, 2017, the Court of Appeal declared itself incompetent to decide on the annulment of the award and stated that it would postpone the subsequent decision on the alleged nullity of the exequatur. On July 4, 2017, the Court annulled the exequatur issued by the President of the Tribunal de grande instance and sentenced STS to pay the costs (€10,000) of the proceeding in favour of Fosmax.

### **Arbitration on the Menzel Ledjmet Est project ('MLE'), Algeria**

On December 23, 2013, Saipem filed a request for arbitration with the International Chamber of Commerce in Paris ('Paris ICC') with reference to the contract entered into on March 22, 2009 by Saipem SpA and Saipem Contracting Algérie SpA (collectively, 'Saipem') on the one hand, and Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures SpA ('Sonatrach') and First Calgary Petroleum LP (the latter, 'FCP' and both collectively, the 'Client') on the other hand, for the engineering, procurement and construction of a natural gas gathering and treatment plant and related export pipelines in the MLE field in Algeria. The request was notified to the Client on January 8, 2014. In its request for arbitration, as subsequently amended in the Statement of Claim on December 17, 2014 and the subsequent brief of January 15, 2016, Saipem requested that the Arbitration Tribunal grant: (i) an extension of the contractual terms by about 30.5 months; (ii) the right of Saipem to obtain payment of the equivalent of about €895 million (gross of the amount of €246 million already paid by

FCP on a without prejudice basis by way of advance payment on variation order requests - VORs), by way of increase of the contractual price because of an extension of time, VORs, non payment of late invoices and spare parts and acceleration bonuses. Both Sonatrach and FCP (this latter wholly owned by the Eni Group since 2008) have appointed their arbitrator and, on March 28, 2014, filed their respective Answers to the Request for Arbitration. Sonatrach and FCP lodged their own Statements of defence (Mémoires en défense) on August 14, 2015, also introducing counterclaims, which amount to a total the equivalent of approx. €280.5 million, taking into consideration the new counterclaim, proposed by Sonatrach alone, of a payment in its own favour of 25% of the sum of approx. €133.7 million (a sum equivalent to an allegedly unjustified increase in costs in addition to moral damage, estimated at not less than €20 million). The Arbitration Panel accepted the new petition filed by Sonatrach, on which it will have, therefore, to reach a decision. Saipem filed its reply on January 15, 2016.

Sonatrach and FCP filed their replies on May 15, 2016 and on June 30, 2016 Saipem filed its reply to the counterclaims. The hearings were held in July 2016. On November 29, 2017, the parties were notified of the partial award issued by the Arbitration Tribunal on November 20, 2017, which, except for some limited exceptions, only ruled on eligibility ('an debeatur') of the reciprocal claims without proceeding to the relevant quantification, postponing the decision on the relevant quantification ('quantum debeatur') of the allowed claims to a subsequent final award – which will likely be issued by the end of 2019. On December 29, 2017, Saipem submitted to the Arbitration Tribunal a request for correction and interpretation of some rulings of the partial award. FCP and Sonatrach submitted their replies on January 26, 2018, requesting the rejection of the request for correction and interpretation presented by Saipem.

On February 14, 2018, Saipem and Sonatrach announced that they *'have decided to settle their mutual differences amicably'* and that they have *'signed an agreement to put an end to litigations in course'*, including the proceedings regarding MLE. *'Sonatrach and Saipem have expressed their satisfaction at having reached a definitive agreement that puts an end to litigations that were detrimental to both parties.'*

As things stand, MLE arbitration is ongoing but only between Saipem and FCP. Saipem and FCP have, moreover, agreed to suspend the arbitration procedure, as it stands, until May 15, 2018.

### **Arbitration proceedings regarding the LPG project in Algeria**

On March 14, 2014, Saipem filed a request for arbitration with the International Chamber of Commerce in Paris in connection with the contract for the construction of the LDHP ZCINA plant (LPG Project) for the 'extraction des liquides des gaz associés Hassi Messaoud et séparation d'huile' (LDHP ZCINA unit for extraction of liquids from associated gas from the Hassi Messaoud field and oil-gas separation), entered into on November 12, 2008 between, on the one hand, Sonatrach, and on the other, Saipem SA and Saipem Contracting Algérie SpA (collectively 'Saipem'). In its request, Saipem asked the Arbitration Tribunal to order Sonatrach to pay the equivalent of approximately €172 million for additional costs incurred as contractor during the execution of the project in relation to variation orders, time extensions, force majeure, non-payment or late payment of invoices and related interest. Sonatrach, in its answer to the request, which it filed on June 10, 2014, denied all liability and asserted a counterclaim requesting that Saipem be ordered to pay liquidated damages for delays amounting to USD 70.8 million. Saipem filed its Mémoire en demande on March 13, 2015 and its Mémoire en Réplique et en Réponse à la Demande Reconventionnelle on January 14, 2016 and the post-hearing briefs on February 28, 2017, in which it set out its own claims for €97,327,266, USD 15,513,586 and DZD 5,263,509,252 (the equivalent of €150 million). Sonatrach filed its 'Mémoire en défense' on September 14, 2015, introducing a new counterclaim relating to the request for payment to Sonatrach of the commissions paid by Saipem to Pearl Partners relating to the LPG project (about €34.5 million), and moral damage. The Arbitral Tribunal decided not to accept the new counterclaim of Sonatrach because it was filed late.

Sonatrach filed its Rebuttal and reply to counter-claim (Mémoire en duplique et réplique à la demande reconventionnelle) on June 6, 2016 in which the company reiterated its requests. Lastly, Sonatrach specified its requests in post-hearing briefs as follows: €35,175,998, USD 9,114,335 and DZD 1,197,009,692 as penalties for delays; USD 194,289,527 for failed plant output (the latter allegedly caused by Saipem on account of its delay in handling several requests under guarantee); €361,029 and DZD 38,557,206 for expenses incurred by Sonatrach for the management of requests under guarantee that should have been handled by Saipem. Saipem filed another reply to Sonatrach's counterclaim on September 6, 2016 and, from 10 to October 14, 2016, the hearings were held before the Arbitration Tribunal. On February 28, 2017, the parties exchanged their post-hearing briefs. On December 21, 2017, the ICC informed the parties of the final decision of the arbitration panel: the arbitrators accepted some of the claims filed by Saipem and some of the counterclaims proposed by Sonatrach and among them – by majority decision and in the presence of a reasoned dissenting opinion from one of the three arbitrators – a counterclaim by Sonatrach as compensation for alleged loss of production of the total amount, including interest, of approximately USD 135 million on the basis of alleged gross negligence in the execution of some operations under warranty following provisional acceptance of the facility, a circumstance that Saipem believes is not recognisable.

On February 14, 2018, Saipem and Sonatrach announced that they *'have decided to settle their mutual differences amicably'* and that they have *'signed an agreement to put an end to litigations in course'*, including the proceedings regarding LPG. *'Sonatrach and Saipem have expressed their satisfaction at having reached a definitive agreement that puts an end to litigations that were detrimental to both parties.'*

### **Arbitration proceedings regarding the LZ2 project in Algeria**

On May 12, 2015, Saipem SpA and Saipem Contracting Algérie SpA (collectively 'Saipem') filed a request for arbitration against Sonatrach for payment of €7,165,849.62 and DZD 602,769,497, plus interest, for wrongly applied liquidated damages, extra works and project extension costs, with the International Chamber of Commerce in Paris. The request relates to the contract for the construction of a pipeline between Hassi R'Mel and Arzew in Algeria entered into by Saipem and Sonatrach on November 5, 2007 ('LZ2 project'). The respondent filed its reply on September 7, 2015, introducing a counterclaim amounting to €8.559 million plus interest and moral injury, to be quantified during the proceedings. The counterclaim relates to the request for payment to Sonatrach of the commissions paid to Pearl Partners relating to the LZ2 project (approximately €8.5 million).

On the basis of the arbitration calendar agreed between the parties in the month of May 2016, Saipem filed its own Mémoire en demande on July 29, 2016 and Sonatrach filed its Mémoire en reponse on December 23, 2016, requesting the rejection of all Saipem's claims and specifying its own counterclaim in a total equivalent to approx. €33.6 million (a sum inclusive of the alleged increase of contractual margins and alleged moral damage, estimated at not less than €14 million).

On April 21, 2017, Saipem filed its counterclaim. The hearings were held from December 11-13, 2017.

On February 14, 2018, Saipem and Sonatrach announced that they *'have decided to settle their mutual differences amicably'* and that they have *'signed an agreement to put an end to litigations in course'*, including the proceedings regarding LZ2. *'Sonatrach and Saipem have expressed their satisfaction at having reached a definitive agreement that puts an end to litigations that were detrimental to both parties'*.

### Arbitration proceedings regarding the ARZEW project in Algeria

With reference to the contract for the construction of a natural gas liquefaction plant at Arzew (Algeria) (project GNL3Z ARZEW), entered into on July 26, 2008, between Sonatrach, on one side, and Saipem SpA, Saipem Contracting Algérie SpA (jointly 'Saipem') and Chiyoda, on the other, on July 31, 2015 Saipem filed a request for arbitration with the International Chamber of Commerce in Paris. In its request, Saipem asked the Arbitration Tribunal to order Sonatrach to pay the approximately €550 million for additional costs incurred as contractor during the execution of the project in relation to additional work, time extensions, non-payment or late payment of invoices and related interest. Sonatrach duly filed its reply, on October 28, 2015, asking by way of counterclaim that Saipem be ordered to pay the damages suffered due to alleged instances of non-fulfilment by Saipem, quantifying, most recently in the Mémoire en Reponse filed on June 30, 2017, the related amounts at approximately €2.254 billion, of which €77.37 million in relation to fees paid by Saipem to Pearl Partners for the Arzew project. Most of the sum of the alleged damages complained of by Sonatrach is claimed as an alleged loss of profit (from alleged non-production), contractually excluded from damages payable except in the case of gross negligence or wilful misconduct.

Saipem filed its own Mémoire en demande on November 25, 2016 in which it specified its own requests in the sum of €460,399,704, plus interest.

On February 14, 2018, Saipem and Sonatrach announced that they *'have decided to settle their mutual differences amicably'* and that they have *'signed an agreement to put an end to litigations in course'*, including the proceedings regarding Arzew. *'Sonatrach and Saipem have expressed their satisfaction at having reached a definitive agreement that puts an end to litigations that were detrimental to both parties'*.

### Court of Cassation - Consob Resolution No. 18949 of June 18, 2014 - Actions for damages

With the measure adopted with Resolution No. 18949 of June 18, 2014, Consob decided to apply a monetary fine of €80,000 to Saipem SpA for an alleged delay in the issuing of the profit warning issued by the company on January 29, 2013 and, 'with a view to completing the preliminary investigation', to transmit a copy of the adopted disciplinary measure to the Public Prosecutor's office at the Court of Milan. On March 12, 2018, the Public Prosecutor's Office at the Court of Milan – at the end of its investigations – notified Saipem SpA of the 'Notice to the suspect of the conclusion of the preliminary investigations' with reference to the hypothesis of an administrative offence referred to in Articles 5, 6, 7, 8, 25-ter, lett. b) and 25-sexies of Legislative Decree No. 231/2001, allegedly committed until April 30, 2013 *'for not having prepared an organisational model suitable to prevent the completion'* of the following alleged offences:

- (i) offence pursuant to Article 185 of Legislative Decree No. 58/1998 (in conjunction with Article 114 of Legislative Decree No. 58/1998 and Article 68, paragraph 2, of the Issuers Regulation), allegedly committed on October 24, 2012, with reference to the press release published for the approval of the quarterly report as at September 30, 2012 by Saipem SpA and the related conference call of October 24, 2012 with external analysts;
- (ii) offence pursuant to Article 2622 of the civil code (continuing illegal offence with Article 2622, paragraphs 1, 3 and 4, old civil code formulation was in force at the time of the facts), allegedly committed on April 30, 2013, with reference to the 2012 consolidated and separate financial statements of Saipem SpA approved by the Board of Directors on March 13, 2013 and by the Shareholders' Meeting on April 30, 2014;
- (iii) offence pursuant to Article 185 of Legislative Decree No. 58/1998, allegedly committed from March 13, 2013 to April 30, 2013, with reference to press releases issued to the public regarding the approval of the 2012 consolidated and separate financial statements of Saipem SpA.

In addition to the Company, the following physical persons are also being investigated in relation to the same allegations as those above:

- for the alleged crime under (i): the two Chief Executive Officers and the Chief Operating Officer of the Engineering & Construction Business Unit of Saipem SpA in office at the date of the press release of October 24, 2012, as they *'through the press release dated October 24, 2012 issued on the occasion of the approval by the Board of Directors of the quarterly report as at September 30, 2012 and during the related conference call ..., they spread false news – which was incomplete and reticent – concerning the economic and financial situation of Saipem SpA, ..., capable of causing a significant alteration of the price of its ordinary shares'*; and
- for the alleged crimes under (ii) and (iii): the Chief Executive Officer and the Manager in charge of preparing the accounting and corporate documents who was in office at the date of approval of the 2012 consolidated and separate financial statements of Saipem SpA as they:

in relation to the alleged offence (ii), they would have *'disclosed in the consolidated and separate financial statements of Saipem SpA, approved by the Board of Directors and by the Shareholders' Meeting on March 13, 2013 and April 30, 2013, material facts that do not correspond to the truth, although subject to evaluation, as well as the omission of information on the economic, asset and financial situation of Saipem SpA, the reporting of which is required by law, ..., and, in particular:*

- *in contrast to the provisions of paragraphs 14, 16, 17, 21, 23, 25, 26 and 28 of IAS 11, no extra costs related to delays in the execution of activities and late penalties were recorded in the costs for the entire lifespan of the project, ... for a total of €245 million:*

and the effect was:

- 1) they recorded higher revenues for €245 million in the income statement compared to the amount accrued, on the basis of a state of economic progress that did not consider the extra costs described above in the costs for the lifespan of the project, in contrast with paragraphs 25, 26 and 30 of the IAS 11;
- 2) they omitted to record the expected loss of the same amount ... as the cost of the year, in contrast with paragraph 36 of IAS 11, thus recording an operating result higher than the pre-tax profit of €1,349 million in the income statement, in place of the actual operating result of €1,106 million, and a higher than realistic shareholders' equity of €17,195 million, instead of the actual shareholders' equity of €16,959 million...'

In relation to the alleged offence (iii), 'with the aforementioned press releases, they spread the news of the approval of the 2012 consolidated and separate financial statements of Saipem SpA, in which material facts that did not correspond to the truth were disclosed, and more specifically revenues higher than actual revenues for €245 million and an EBIT higher than reality for the corresponding amount, ...'.

On July 28, 2014, Saipem SpA lodged an appeal at the Court of Appeal in Milan against the above mentioned Consob Resolution No. 18949 dated June 18, 2014 to impose a monetary fine. By decree filed on December 11, 2014, the Court of Appeal of Milan rejected the opposition made by Saipem SpA which then appealed to the Court of Cassation against the decree issued by the Court of Appeal of Milan. The appeal was discussed on November 7, 2017. On February 14 the Court of Cassation filed its decision rejecting Saipem's petition for full compensation on the grounds of the 'absolute uniqueness of the situation... concerning the interpretation of the phrase 'without delay' in the text of the 1<sup>st</sup> paragraph of Article 114 TUF'.

On April 28, 2015, a number of foreign institutional investors initiated legal action against Saipem SpA before the Court of Milan, seeking judgement against the Company for the compensation of alleged loss and damage (quantified in about €174 million), in relation to investments in Saipem shares which the claimants alleged that they had effected on the secondary market. In particular, the claimants sought judgement against Saipem requiring the latter to pay compensation for alleged loss and damage which purportedly derived from the following: (i) with regard to the main claim, from the communication of information alleged to be 'imprecise' over the period from February 13, 2012 and June 14, 2013; or (ii) alternatively, from the allegedly 'delayed' notice, only made on January 29, 2013, with the first 'profit warning' (the so-called 'first notice') of privileged information which would have been in the Company's possession from July 31, 2012 (or such other date to be established during the proceedings, identified by the claimants, as a further alternative, on October 24, 2012, December 5, 2012, December 19, 2012 or January 14, 2013), together with information which was allegedly 'incomplete and imprecise' disclosed to the public over the period from January 30, 2013 to June 14, 2013, the date of the second 'profit warning' (the so-called 'second notice'). Saipem SpA appeared in court, fully disputing the adverse party's requests, challenging their admissibility and, in any case, their lack of grounds.

As per the order made by the Judge at the hearing of May 31, 2017, the parties proceeded to deposit the briefs referred to in Article 183, paragraph 6, c.p.c., and, on February 1, 2018, a hearing is scheduled for admission of the measures of inquiry.

With the same ordinance of May 31, 2017, the Court ordered the separation of the judgement for five of the parties involved in the above proceedings and this separate proceeding – number R.G. 28177/2017 – was discontinued pursuant to Article 181 of the Italian Civil Code on November 7, 2017.

With the lifting of the reserve taken at the hearing on February 1, 2018, the Judge, by order of February 2, 2018, postponed the proceeding to the hearing of July 19, 2018, pursuant to Article 187, paragraph 2, c.p.c. The case is, therefore, still at the opening arguments on preliminary issues.

With a writ of summons dated December 4, 2017, twentyseven corporate investors took legal action before the Court of Milan – section specialised in the field of corporate law, against Saipem SpA. and two former Chief Executive Officers of said company, requesting that they are jointly condemned to pay compensation (with respect to the two former members of the company, limited to their periods of stay in office) for compensation for damages, material and non-material, allegedly suffered due to an alleged manipulation of information returned to the market during the period between January 2007 and June 2013.

Saipem SpA's liability was calculated pursuant to Article 1218 of the Civil Code (contractual liability) or pursuant to Article 2043 of the Civil Code (non-contractual liability) or, pursuant to Article 2049 of the Civil Code (owner and client liability) for the illegal conduct committed by the two former company representatives.

Damages were not quantified by the investors, who reserved the right to quantify damages during the trial.

The first hearing for this case appear in court – number R.G. 58563/2017 – is scheduled for June 5, 2018.

The Company will appear in court to contest the claims in full, pleading inadmissibility and in any case the groundlessness in fact and in law.

**Demands for out-of-court settlement and mediation proceedings:** with regard to the alleged delays in providing information to the markets, over 2015, 2016 and 2017, Saipem SpA received a number of out-of-court demands and mediation applications. As far as the out-of-court claims are concerned, the following have been made: (i) in April 2015 by 48 institutional investors acting on their own behalf and/or on behalf of the funds managed by them respectively amounting to about €291.9 million, without specifying the value of the claims made by each investor/fund (subsequently, 21 of these institutional investors, together with a further 8 presented applications for mediation for a total amount of about €159 million; 5 of these institutional investors together with another 5, presented applications for mediation in relation to the total amount of about €21.9 million); (ii) in September 2015 by 9 institutional investors acting on their own behalf and/or for the funds managed by them respectively for a total amount of about €21.5 million, without specifying the value of the claims for compensation made by each investor/fund (subsequently 5 of these institutional investors together with another 5, made an application for mediation for a total amount of about €21.9 million); (iii) over 2015 by two private investors amounting respectively to about €37,000 and €87,500; (iv) during the month of July 2017 from some institutional investors for approximately €30 million; (v) on December 4, 2017, from 141 institutional investors for an unspecified amount.

Those applications where mediation has been attempted, but with as yet no outcome, involve five main demands: (a) in April 2015 by 7 institutional investors acting on their own behalf and/or for the funds managed by them, in relation to about €34 million; (b) in September 2015 by 29 institutional investors on their own behalf and/or for the funds managed by them respectively, for a total

amount of about €159 million (21 of these investors, together with another 27, submitted out-of-court demands in April 2015, complaining that they had suffered loss and damage for a total amount of about €291 million without specifying the value of the claims for compensation for each investor/fund); (c) in December 2015 by a private investor in the amount of about €200,000; and (d) in March 2016 by 10 institutional investors on their own behalf and/or for the funds managed by each respectively, for a total amount of about €21.9 million (5 of these investors together with another 4 had presented out-of-court applications in September 2015, complaining they had suffered loss and damage for a total amount of about €21.5 million without specifying the value of the compensation sought by each investor/fund. Another 5 of these investors, together with a further 43, had presented out-of-court applications in April 2015 alleging they had suffered loss and damage for an amount of about €159 million without specifying the value of the compensation sought by each investor/fund); from a private investor in April 2017 for approximately €40,000.

Saipem SpA has replied to the out-of-court claims and the mediation, denying all liability. At the date of approval of the Annual Report 2017 by the Board of Directors, the aforementioned demands for out-of-court settlements and/or mediation were not subject to legal action, except for the matters specified above in relation to the two cases pending before the Court of Milan.

### **Dispute with Husky - Sunrise Energy Project in Canada**

On November 15, 2010, Saipem Canada Inc ('Saipem') and Husky Oil Operations Ltd ('Husky') (the latter for account of the Sunrise Oil Sands Partnership formed by BP Canada Energy Group ULC and Husky Oil Sands Partnership, in turn formed by Husky Oil Operations Ltd and HOI Resources Ltd), signed an Engineering, Procurement and Construction contract No. SR-071 (the 'Contract'), prevalently on a reimbursable basis, relating to the project called Sunrise Energy (the 'Project').

During the execution of the works, the parties agreed several times to modify the contractual payment formula. Specifically: (i) in October 2012, the parties established that the works were to be paid for on a lump-sum basis, agreeing the amount of CAD 1,300,000,000 as contract price; (ii) subsequently, in early 2013, an incentive system was agreed that provided for Saipem's right to receive additional payments upon achieving certain objectives; (iii) starting from April 2014, the parties entered into numerous written agreements whereby Husky accepted to reimburse Saipem for the costs incurred in excess of the lump sum amount previously agreed, thus determining, according to Saipem, a contract change from lump sum to reimbursable. As the end of the works approached, however, Husky stopped paying what it owed as reimbursement and, in March 2015, finally terminated the Contract, claiming that Saipem had not complied with the contractual deadline for conclusion of the works.

In light of the above, on March 16, 2015 Saipem took legal action citing Husky, the aforesaid partnerships and the related members before the Court of Queen's Bench of Alberta, requesting, among other things, that the court declare the illegitimacy of the termination of the Contract by Husky and sentence it to the payment of: (i) more than CAD 800 million for damages that include the payments not made on a reimbursable basis, damages resulting from the termination of the contract, lost profits and the unjustified enrichment of Husky at the expense of Saipem; or, alternatively, (ii) the market value of the services, materials and financing rendered.

In September 2015, Husky notified Saipem of a Request for Arbitration (Alberta Arbitration Act), affirming that, as a result of the reduction of the scope of work requested by Husky, the contractual lump sum price agreed with Saipem should be reduced proportionally on the basis of a specific contractual provision in this sense. On the basis of this, Husky asked that Saipem be ordered to pay the related value, quantifying this claim as CAD 45,684,000.

On October 6, 2015, Husky sued Saipem in the Court of Queen's Bench of Alberta, claiming, among other things: (i) that the payments it had made to Saipem, which were in excess of the lump sum amount agreed between the parties, were justified by Saipem's alleged threats to abandon the works if such additional payments were not made (economic duress); and (ii) that even after the execution of such payments, the performances of Saipem did not improve, forcing Husky to terminate the contract and complete the works on its own. As a result, Husky asked the Canadian court to order Saipem to pay CAD 1.325 billion for alleged damages, an amount that includes, among other things: (i) payments in excess with respect to the agreed lump sum price; (ii) costs to complete the works following termination of the contract; (iii) damages for lost profits and the penalty for alleged delay in completion of the Project.

In the hearing of January 14, 2016, Saipem requested that the pending proceedings be heard jointly before the Queen's Bench Court of Alberta and that arbitration be suspended in order to include the relative claims in the proceedings to be heard jointly. On May 27, 2016 Saipem filed a short reply requesting that the Court declare invalid the arbitration proceedings commenced by Husky. At the hearing for the discussion of this petition, held on July 4, 2016, the Judge rejected the request to declare the arbitration procedure invalid initiated by Husky which is ongoing.

In March 2018, the parties entered into an arbitration agreement by which they agreed to unite all the disputes pending between them, as described above, in a single 'ad hoc' arbitration proceeding based in Canada.

### **Arbitration with GLNG - Gladstone Project (Australia)**

On January 4, 2011, Saipem Australia Pty Ltd ('Saipem') entered into the Engineering, Procurement and Construction Contract (the 'Contract') relating to the Gladstone LNG project (the 'Project') with GLNG Operations Pty Ltd ('GLNG') in the capacity of agent of the joint venture between Santos GLNG Pty Ltd, PAPL (Downstream) Pty Ltd and Total E&P Australia.

During the execution of the Project, Saipem accrued and presented to GLNG contractual claims that were entirely rejected by GLNG. A phase of negotiations began between the parties but did not lead to any positive results.

Therefore, on October 9, 2015, Saipem submitted a request for arbitration against GLNG requesting:

- a quantum meruit claim based on the alleged invalidity of the Contract (a claim that was rejected during the arbitration procedure on the basis of a partial award);
- claims based on the contract.

On November 6, 2015, GLNG filed its counterclaim requesting the rejection of the claims made by Saipem and requesting in turn compensation for damages for alleged defective works with particular reference to the coating of the entire line and to the cathodic protection system.

At present, Saipem claims in the arbitration amount to approximately AUD 254 million, while the GLNG counterclaim amounts to AUD 1.1 billion, corresponding to the GLNG assessment of the pipeline replacement costs; and AUD 24 million corresponding to the GLNG assessment of the costs for the adoption of temporary adjustment measures.

The next hearings will be held in April and August 2018. The award is expected by the end of 2018/beginning of 2019.

### **Dispute with South Stream Transport BV - South Stream Project**

On November 10, 2015, Saipem SpA filed a request for arbitration against South Stream Transport BV ('SSTBV') with the International Chamber of Commerce (ICC) of Paris. Saipem's initial claim amounted to about €759.9 million by way of consideration due both for the suspension of work (requested by the client for the period from December 2014 to May 2015) and for the subsequent termination for convenience of the contract notified on July 8, 2015 by SSTBV. The request may be supplemented by Saipem by claims for costs incurred directly by the termination for convenience and relating to works that are still in progress or which have not yet been completely calculated. ICC notified SSTBV of Saipem's request for arbitration on December 15, 2015. SSTBV filed its reply on February 16, 2016. In its reply, SSBV challenged all of Saipem's claims and reserved the right to make a counterclaim at a subsequent stage of the arbitration process.

On September 30, 2016, Saipem filed its own Memorial (Statement of Claim), in which, on the basis of the report drawn up by its own quantum expert, the amount of the claims against SSTBV has been reduced to approx. €678 million (with the right to integrate this in the course of arbitration).

On March 10, 2017, SSTBV deposited its Counter-Memorial, in which, in addition to rejecting Saipem's requests, compensation was claimed:

- mainly for damages of around €541 million for alleged misrepresentations that would have led the defendant to enter into a contract with Saipem;
- additionally or alternatively, for damages for: (i) approximately €138 million, for payments made by SSTBV to a significantly higher level than contractually due; and (ii) approximately €48 million, for liquidated damages motivated by alleged delays; and
- mainly and alternatively, damages for approximately €10 million for alleged damage to the pipes owned by the defendant.

On November 3, 2017, Saipem filed its Reply Memorial in which it clarified its claims for €644,588,545.

SSTBV will file its Rejoinder on June 8, 2018. The discussion hearings before the arbitration panel have been set for June 2019.

### **Arbitration with Kharafi National Closed Ksc ('Kharafi') - Jurassic Project**

With reference to the Jurassic project and the relating EPC contract between Saipem SpA ('Saipem') and Kharafi, on July 1, 2016 Saipem filed a request for arbitration with the London Court of International Arbitration ('LCIA') with which it requested that Kharafi be sentenced:

- (1) to return KWD 25,018,228, cashed by Kharafi through the enforcement of a performance bond following the termination of the contract with Saipem;
  - (2) to refund KWD 20,135,373 for costs deriving from the suspension of the procurement activities, particularly those connected with the purchase by Saipem of 4 turbines;
  - (3) to refund KWD 10,271,409 for engineering costs borne by Saipem prior to the termination of the contract by Kharafi;
- for a total of KWD 55,425,010 (equal to approximately €153,065,479 on the basis of the exchange rate at December 31, 2017).

Kharafi responded to Saipem's request for arbitration rejecting the claims therein and demanding, by way of counterclaim, that Saipem be sentenced to pay an amount not yet quantified but including, among other things:

- (1) the costs allegedly sustained by Kharafi due to Saipem's alleged non-fulfilment of the contract (more than KWD 32,824,842); and
- (2) the damage allegedly suffered by Kharafi following the enforcement of a guarantee in a sum equivalent to KWD 25,136,973 issued by Kharafi to the final customer of the Jurassic project.

The Chairman of the Arbitration Tribunal was appointed and the arbitration calendar was agreed on the basis of which, on April 28, 2017 Saipem filed its Statement of Claim and Kharafi filed its Statement of Defence and Counterclaim on October 16, 2017. The Kharafi counterclaim was set out in KWD 102,737,202 (approximately €283 million). Saipem filed its reply on February 6, 2018. It is expected that the hearings will be held in February 2019 and that the award will be issued at the end of the same year.

### **Arbitration with CPB Contractors Pty Ltd (formerly Leighton Contractors Pty Ltd ('CPB') Gorgon LNG Jetty Project**

In August 2017, CPB notified Saipem SA and Saipem Portugal Comércio Marítimo, Sociedade Unipessoal Lda ('Saipem') of an application for arbitration.

The dispute stems from the construction of the dock of an LNG plant for the Gorgon LNG project in Western Australia. The main contract for engineering and construction of the pier ('Jetty Contract') was signed on November 10, 2009 by CPB, Saipem SA, Saipem Portugal Comércio Marítimo, Sociedade Unipessoal Lda and Chevron Australia Pty Ltd ('Chevron').

CPB based on alleged contractual breaches by Saipem SA and Saipem Portugal Comércio Marítimo, Sociedade Unipessoal Lda has requested that Saipem be ordered to pay approximately AUD 1.39 billion. Saipem believes that the CPB claims are totally unfounded and has filed its statement in which it has requested the rejection of all the claims made by CPB and filed a counterclaim for more than AUD 50 million. It is noted that CPB, in 2016, had requested compensation for the same damages (requested in 2017 against Saipem SA and Saipem Portugal Comércio Marítimo, Sociedade Unipessoal Lda in this arbitration) in another arbitration still pending against Chevron, asserting in that case the responsibility of Chevron for the same items of damage. The arbitration proceedings are in the initial phase.

### **Consob Resolution of March 2, 2018**

With reference to Consob Resolution No. 20324 of March 2, 2018 ('the Resolution') the contents of which are described in paragraph 'Information relating to the remark expressed by Consob pursuant to Article 154-ter, subsection 7, of Legislative Decree No. 58/1998, and communication by Offices of Consob on April 6, 2018', the Board of Directors of Saipem resolved on March 5, 2018 to appeal the Resolution in the competent courts.

## REVENUES

The following is a summary of the main components of revenues. The most significant variations are analysed in the 'Financial and economic results' section of the 'Directors' Report'.

### 38 Net sales from operations

Net sales from operations were as follows:

(€ million)	2016	2017
Revenues from sales and services	9,422	9,154
Change in contract work in progress	84	(162)
Change in advance payments	470	7
<b>Total</b>	<b>9,976</b>	<b>8,999</b>

Net sales by geographical area were as follows:

(€ million)	2016	2017
Italy	338	428
Rest of Europe	749	415
CIS	2,626	1,053
Middle East	2,104	3,063
Far East	545	579
North Africa	452	1,143
West Africa and Rest of Africa	2,208	1,842
Americas	954	476
<b>Total</b>	<b>9,976</b>	<b>8,999</b>

Information required by IAS 11 is provided by business sector in Note 48 'Segment information, geographical information and construction contracts'.

Contract revenues include the amount agreed in the initial contract, plus revenues from change orders and claims.

Change orders are changes to the contracted scope of work requested by the client, while claims are requests for the reimbursement of costs not included in the contract price. Change orders and claims are included in revenues when: (a) contract negotiations with the client are at an advanced stage and approval is probable; (b) their amount can be reliably estimated.

The cumulative amount of additional payments for change orders and claims, including amounts pertaining to previous years, based on project progress at December 31, 2017, totalled €479 million, of which 85% are disputed. For projects where additional payments exceed €50 million, estimates are supported by a technical/legal opinion provided by third party consultants. Revenues from related parties are shown in Note 49 'Transactions with related parties'.

### 39 Other income and revenues

Other income and revenues were as follows:

(€ million)	2016	2017
Gains on disposal of assets	2	6
Gain on disposal of a business unit	-	15
Indemnities	2	2
Contract penalties	-	3
Other income	30	13
<b>Total</b>	<b>34</b>	<b>39</b>

The gains for €15 million refer to the sale of the business Traveaux Maritime.

## OPERATING EXPENSE

The following is a summary of the main components of operating expenses. The most significant are analysed in the 'Financial and economic results' section of the 'Directors' Report'.

### 40 Purchases, services and other costs

Purchases, services and other costs included the following:

(€ million)	2016	2017
Production costs - raw, ancillary and consumable materials and goods	2,130	2,298
Production costs - services	3,934	3,225
Operating leases and other	758	730
Net provisions for contingencies	53	13
Other expenses	348	243
less:		
- capitalised direct costs associated with self-constructed assets	(7)	(9)
- changes in inventories of raw, ancillary and consumable materials and goods	103	58
<b>Total</b>	<b>7,319</b>	<b>6,558</b>

Costs for services included agency fees of €1 million (€1 million at December 31, 2016).

Costs for research and development that do not meet the requirements for capitalisation amounted to €31 million (€19 million in 2016).

'Operating leases and other' included operating lease payments of €717 million (€735 million in 2016), mainly for bunkers, buildings, work and construction equipment.

Future minimum lease payments expected to be paid under non-cancellable operating leases amounted to €617 million (€678 million in 2016), of which €110 million was due within one year, €363 million between 2-5 years and €144 million due after 5 years. Net provisions for contingencies are detailed in Note 25 'Provisions for contingencies'.

Purchase services and other costs to related parties are shown in Note 49 'Transactions with related parties'.

### 41 Payroll and related costs

Payroll and related costs were as follows:

(€ million)	2016	2017
Wages and salaries	1,467	1,314
Social security contributions	254	207
Contributions to defined benefit plans	30	38
Accrual to provision for TFR recognised as a contra-entry to pension or Inps funds	22	22
Voluntary redundancy incentives	-	25
Other costs	19	16
less:		
- capitalised direct costs associated with self-constructed assets	(10)	(4)
<b>Total</b>	<b>1,782</b>	<b>1,618</b>

Net accruals to provisions for employee benefits are shown under Note 26 'Provisions for employee benefits'.

Charges for voluntary redundancy incentives refer only to net provisions for the provision for termination benefits as commented on Note 25 'Provisions for contingencies'.

### Stock-based compensation plans for Saipem senior managers

In order to create a system of incentives and loyalty among Group's senior managers, Saipem SpA defined a stock grant Plan in 2016 which was implemented in quarterly cycles.

The 2016-2018 incentive plan, approved by the Ordinary Shareholders' Meeting on April 29, 2016, provides for the free allocation of Saipem ordinary shares to the senior managers of Saipem SpA and its subsidiaries, who are holders of organisational positions with an appreciable impact on the achievement of business results.

The plan requires that the performance conditions be measured on the basis of the following parameters: (i) a market objective, identified in the Total Shareholder Return (TSR) of the Saipem share, with a weight of 50%, compared to that of a basket of competing companies during the performance period; (ii) an economic-financial objective, with a weight of 50%, represented for both the implemented measures, by Saipem's Net Financial Position (NFP) at the end of the three-year period of reference.

For each of the performance objectives illustrated above, 3 levels of results have been established: (i) upon achieving the maximum result level, the number of matured shares will be 100% of the shares allocated; (ii) upon achieving the threshold result

level, the number of matured shares will be 50% of the shares allocated for the TSR and 30% for the NFP; (iii) for results that fall below the threshold no shares will be allocated.

The performance conditions operate independently of each other.

Rights can be exercised in advance, but in a limited way, in the event of termination of the employment contract by mutual consent or loss of control by Saipem of the company where the beneficiary of the plan is employed (Article 4.8 of the plan's regulations). If the employment contract is terminated unilaterally during the vesting period, the incentive will not be paid out.

The cost is determined with reference to the fair value of the option assigned to the senior manager, while the portion for the year is determined pro rata temporis throughout the period to which the incentive refers (the vesting period and the co-investment period).

The fair value of the stock grants for the year, referring to both completed allocations, amounted to €8 million.

The measurement was carried out using the Stochastic and Black & Scholes models, according to the provisions established by the international accounting standards, in particular by IFRS 2.

The Stochastic model was used for both allocations in order to assess the equity-settled share-based payment subject to market related performance conditions (TSR), with a weight of 50%.

The Black & Scholes model was used to assess the economic-financial objective, with a weight of 50%.

For allocation in 2017 the total weighted average unit fair value is equal to €3,065 (€3,111 for 2016).

At the end of the vesting period the plan requires that the strategic resources invest 25% of the matured shares for a further two years (co-investment period), at the end of which the beneficiaries will receive an addition free share for every share invested, the weighted average unit fair value is differentiated by allocation type as follows:

	Weighted average fair value (Implementation for 2016) <sup>(a)</sup>	Weighted average fair value (Implementation for 2017)
Strategic senior managers	3.400	3.353
Non-strategic senior managers	2.750	2.665
Chief Executive Officer-CEO	2.750	2.665
<b>Total</b>	<b>3.111</b>	<b>3.065</b>

(a) The values referring to the 2016 implementation have been restated following the reverse stock split in May 2017.

The co-investment provision does not apply to the Chief Executive Officer-CEO, whose office expires before that period, for which a two-year lock-up on 25% of the shares matured is envisaged, in which the shares may not be transferred and/or sold.

At the date of assignment, the classification and the number of beneficiaries, the respective number of shares allocated and the subsequent fair value calculation are analysed as follows:

	No. of managers	No. of shares	Share portion (%)	Unit fair value TSR (weight 50%)	Unit fair value PFN (weight 50%)	Weighted average unit fair value	Total fair value	Fair value 2016	Fair value 2017
<b>Implementation for 2016 <sup>(a)</sup></b>									
Strategic senior managers (vesting period)			75	1.20	4.26				
Strategic senior managers (co-investment period)	99	3,407,815	25	2.20	8.52	3.400	11,586,558	1,356,025	3,254,460
Non-strategic senior managers	272	2,330,350	100	1.20	4.26	2.750	6,408,463	890,065	2,136,155
Chief Executive Officer-CEO	1	365,349	100	1.20	4.26	2.750	1,004,709	139,543	334,903
<b>Total</b>	<b>372</b>	<b>6,103,514</b>				<b>3.111</b>	<b>18,999,730</b>	<b>2,385,633</b>	<b>5,725,518</b>

(a) The values referring to the 2016 implementation have been restated following the reverse stock split in May 2017.

	No. of managers	No. of shares	Share portion (%)	Unit fair value TSR (weight 50%)	Unit fair value PFN (weight 50%)	Weighted average unit fair value	Total fair value	Fair value 2016	Fair value 2017
<b>Implementation for 2017</b>									
Strategic senior managers (vesting period)			75	1.91	3.42				
Strategic senior managers (co-investment period)	100	3,926,500	25	3.99	6.84	2.665	13,163,589	-	1,611,503
Non-strategic senior managers	244	2,418,400	100	1.91	3.42	3.353	6,445,036	-	940,904
Chief Executive Officer-CEO	1	397,500	100	1.91	3.42	3.353	1,059,338	-	154,648
<b>Total</b>	<b>345</b>	<b>6,742,400</b>				<b>3.0653</b>	<b>20,667,963</b>	<b>-</b>	<b>2,707,055</b>

The evolution of the stock grant plan is as follows:

	2016			2017		
	Number of shares	Average strike price <sup>(a)</sup> (€ thousand)	Market price <sup>(b)</sup> (€ thousand)	Number of shares	Average strike price <sup>(a)</sup> (€ thousand)	Market price <sup>(b)</sup> (€ thousand)
<b>Options as of January 1</b>	-	-	-	<b>6,095,214</b>	-	<b>32,914</b>
New options granted	6,103,514	-	26,001	6,742,400	-	23,059
(Options exercised during the period - consensual termination) <sup>(c)</sup>	-	-	-	(4,275)	-	(14)
(Options expiring during the nine-month period)	(8,300)	-	(45)	(195,825)	-	(745)
<b>Options outstanding as of December 31</b>	<b>6,095,214</b>	-	<b>32,914</b>	<b>12,637,514</b>	-	<b>48,149</b>
<b>Of which:</b>						
- exercisable at December 31	-	-	-	-	-	-
- exercisable at the end of the vesting period	5,243,260	-	-	10,638,973	-	-
- exercisable at the end of the co-investment period	851,954	-	-	1,998,541	-	-

(a) Since these are stock grants, the strike price is zero.

(b) The market price of shares underlying options granted, exercised or expiring during the year corresponds to the average market value. The market price of shares underlying the stock grants outstanding at the beginning and end of the year is the price recorded at January 1 and December 31.

(c) The share plan envisages, inter alia, that in cases of consensual termination of the employment relationship, the beneficiary retains the right to the incentive to a reduced extent, in relation to the period elapsed between the allocation of shares and the occurrence of such event. (Article 4.8 of the plan regulations).

The following table shows stock options outstanding as of December 31, 2017 and the number of assignees:

Year	No. of managers	Strike price <sup>(a)</sup>	No. of shares
2016	372	-	6,103,514
2017	345	-	6,742,400
			<b>12,845,914</b>
<b>To December 31, 2017</b>			
Shares assigned			
2016 <sup>(b)</sup>	(3)	-	(4,275)
2017	-	-	-
			<b>(4,275)</b>
Expired stock options			
2016 <sup>(b)</sup>	(13)	-	(164,525)
2017	(2)	-	(39,600)
			<b>(204,125)</b>
Stock options			
2016	359	-	5,934,714
2017	343	-	6,702,800
			<b>12,637,514</b>

(a) Since these are stock grants, the strike price is zero.

(b) The number of managers indicated among the expired stock options, also includes 3 managers already detailed in correspondence with the options allocated. The latter, in fact, referring to consensual termination, whose beneficiaries received a reduced number of shares (Article 4.8 of the plan regulations), imply the forfeiture of residual unallocated options.

The stock grant plans for Saipem SpA employees are shown in the item 'Labour costs' and as a counter-item to 'Other reserves' of shareholders' equity.

The fair value of stock grant plans for employees of subsidiaries is shown at the date of option grant in the item 'Labour costs' and as a counter-item to 'Other reserves' of shareholders' equity. In the same financial year the corresponding amount is charged to affiliated companies, as a counter-item to the item 'Labour costs'.

In the presence of Saipem SpA personnel who provides service to other Group companies, the cost is charged pro-rata temporis to the company where the beneficiaries are in service.

The following parameters were used to calculate fair value:

		2016	2017
<b>Share price</b> <sup>(a)</sup>	(€)	<b>4.26</b>	<b>3.42</b>
<b>Strike price</b> <sup>(b)</sup>	(€)	-	-
<b>Strike prices used in the Black &amp; Scholes model</b>	(€)	<b>4.26</b>	<b>3.42</b>
<b>Expected life</b>			
Vesting period	(years)	3	3
Co-investment	(years)	2	2
<b>Risk-free interest rate</b>			
TSR	(%)	-	-
- vesting period	(%)	0.023	0.200
- co-investment	(%)	0.320	0.780
Black & Scholes	(%)	n.a.	n.a.
Expected dividends	(%)	-	-
<b>Expected volatility</b>			
TSR	(%)	-	-
- vesting period	(%)	59.13	58.15
- co-investment	(%)	55.70	55.02
Black & Scholes	(%)	n.a.	n.a.

(a) Corresponding to 2016 to the closing price of the Saipem SpA shares on the day prior to the grant date, recorded on the Electronic Stock Market managed by the Borsa Italiana, restated subsequently by the reverse stock split. The 2017 figure corresponds to the closing price of the Saipem SpA shares at the grant date.

(b) Since these are stock grants, the strike price is zero.

### Compensation of key management personnel

To ensure consistency between disclosures provided in the Remuneration Report and the annual report, the definition of key management personnel has been aligned with the definition of Senior Managers with strategic responsibilities pursuant to Article 65, paragraph 1-*quater* of the Issuer Regulations. This definition refers to persons with direct or indirect planning, coordination and control powers and responsibilities. The table below shows remuneration of Senior Managers with strategic responsibilities of Saipem, defined as Senior Managers (other than Directors and Statutory Auditors) serving on the Executive Committee, as well as all direct reports of the CEO.

(€ million)	2016	2017
Wages and salaries	4	6
Employee termination indemnities	-	-
Other long-term benefits	1	-
Stock grants	-	1
<b>Total</b>	<b>5</b>	<b>7</b>

### Compensation of Statutory Auditors

Remuneration of Statutory Auditors amounted to €170 thousand in 2017.

Compensation included emoluments and all other retributive and social security compensations due for the function of Director or Statutory Auditor of Saipem SpA or companies within the scope of consolidation that represented a cost to the Parent Company.

### Average number of employees

The average number of employees, by category, for all consolidated companies was as follows:

(number)	Dec. 31, 2016	Dec. 31, 2017
Senior managers	401	385
Junior managers	4,162	4,038
White collars	17,950	15,430
Blue collars	16,694	13,804
Seamen	296	279
<b>Total</b>	<b>39,503</b>	<b>33,936</b>

The average number of employees was calculated as the arithmetic mean of the number of employees at the beginning and end of the year. The average number of senior managers included managers employed and operating in foreign countries whose position was comparable to senior manager status.

## 42 Depreciation, amortisation and impairment

Depreciation, amortisation and impairment are detailed below:

(€ million)	2016	2017
Depreciation and amortisation:		
- tangible assets	672	495
- intangible assets	12	10
<b>Total depreciation and amortisation</b>	<b>684</b>	<b>505</b>
Impairment:		
- tangible assets	1,721	231
- intangible assets	3	-
<b>Total impairment</b>	<b>1,724</b>	<b>231</b>
<b>Total</b>	<b>2,408</b>	<b>736</b>

The write down of assets due to the changed prospects of use in the medium term and following impairment tests are described as follows:

- in Offshore Drilling, a semi-submersible platform and its inventory, has been written down as it is not expected to be used in the medium term. In addition, some vessels were partially written down following the impairment test. Impact of €122 million;
- in Onshore Drilling, some drilling rigs have been completely written down, as the possibility of use in the medium term is either null or limited. Impact of €66 million;
- in Offshore E&C an FPSO was partially written down after the impairment test. Impact of €24 million.

For further details, see also the 'Financial and economic results' section of the 'Directors' Report'.

## 43 Finance income (expense)

Finance income (expense) was as follows:

(€ million)	2016	2017
<b>Finance income (expense)</b>		
Finance income	867	309
Finance expense	(868)	(617)
<b>Total</b>	<b>(1)</b>	<b>(308)</b>
Derivative financial instruments	(153)	85
<b>Total</b>	<b>(154)</b>	<b>(223)</b>

Net finance income and expense was as follows:

(€ million)	2016	2017
<b>Exchange gains (losses)</b>	<b>100</b>	<b>(208)</b>
Exchange gains	855	300
Exchange losses	(755)	(508)
<b>Finance income (expense) related to net borrowings</b>	<b>(92)</b>	<b>(94)</b>
Interest from banks and other financial institutions	10	8
Interest and other expense due to banks and other financial institutions	(102)	(102)
<b>Other finance income (expense)</b>	<b>(9)</b>	<b>(6)</b>
Other finance income from third parties	2	1
Other finance expense	(7)	(4)
Finance income (expense) on defined benefit plans	(4)	(3)
<b>Total finance income (expense)</b>	<b>(1)</b>	<b>(308)</b>

Gains (losses) on derivatives consisted of the following:

(€ million)	2016	2017
Exchange rate derivatives	(152)	86
Interest rate derivatives	(1)	(1)
<b>Total</b>	<b>(153)</b>	<b>85</b>

Income from derivatives of €85 million (expenses of €153 million in 2016) mainly related to the recognition in income of the change in fair value of derivatives that do not qualify for hedge accounting under IFRS and the recognition of the forward component of derivatives that qualify for hedge accounting.

Finance income (expense) with related parties are shown in Note 49 'Transactions with related parties'.

## 44 Income (expense) from investments

### Effect of accounting using the equity method

The share of profit (loss) of investments accounted for using the equity method consisted of the following:

(€ million)	2016	2017
Share of profit of investments accounted for using the equity method	26	8
Share of loss of investments accounted for using the equity method	(7)	(16)
Net additions to (deductions from) the provisions for losses related to investments accounted for using the equity method	(1)	(1)
<b>Total</b>	<b>18</b>	<b>(9)</b>

The share of profits (losses) of investments accounted for using the equity method is commented on in Note 16 'Investments'.

### Other income (expense) from investments

There was no other income (expense) from investments in the year.

## 45 Income taxes

Income taxes consisted of the following:

(€ million)	2016	2017
Current taxes:		
- Italian subsidiaries	26	115
- foreign subsidiaries	264	162
Net deferred taxes:		
- Italian subsidiaries	(43)	2
- foreign subsidiaries	198	(78)
<b>Total</b>	<b>445</b>	<b>201</b>

Current taxes amounted to €277 million (€3 million of which for Irap - Italian regional production tax).

The difference between statutory taxes, calculated by applying a 24% tax rate (Ires) to profit before income taxes as provided for by Italian laws, and effective taxes for the years ended December 31, 2016 and 2017 were due to the following factors:

(€ million)	2016	2017
<b>Result before income taxes</b>	<b>(1,635)</b>	<b>(107)</b>
<b>Statutory tax rate</b>	<b>(450)</b>	<b>(26)</b>
Items increasing (decreasing) statutory tax rate:		
- different foreign subsidiaries tax rate	(143)	(40)
- permanent differences and other factors	719	149
- effect of Italian regional production tax (Irap) on Italian companies	-	3
- additions to (deductions from) tax provision	(9)	5
- Ires relating to retained earnings	-	76
- unrecognised deferred tax assets	96	19
- write-down of deferred tax assets and current tax assets	232	15
<b>Total changes</b>	<b>895</b>	<b>227</b>
<b>Effective tax rate</b>	<b>445</b>	<b>201</b>

(€ million)	2016	2017
Income taxes recognised in consolidated income statement	445	201
Income tax related to items of other comprehensive income that may be reclassified to profit or loss	(37)	(73)
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	(1)	(1)
<b>Tax on total comprehensive income</b>	<b>407</b>	<b>127</b>

## 46 Non-controlling interests

Profit attributable to non-controlling interests amounted to €21 million (€7 million in 2016).

## 47 Earnings (losses) per share

Basic earnings (losses) per ordinary share are calculated by dividing net profit (losses) for the year attributable to Saipem's shareholders by the weighted average of ordinary shares issued and outstanding during the year, excluding treasury shares.

As a result of the reverse stock split that took place in May 2017 and resolved at the Extraordinary Shareholders Meeting held on April 28, 2017 the ratio of a new ordinary share for every ten existing shares and of a new savings share for every ten existing savings shares, the number of ordinary shares is equal to 1,010,966,841 and the number of savings shares is equal to 10,598.

Data from 2016 was restated in order to render it consistent with data stated at December 31, 2017.

The weighted average of shares outstanding used for the calculation of the diluted earnings (loss) per share was 1,000,503,419 in 2017 and 834,879,223 restated in 2016.

Diluted earnings per share are calculated by dividing net profit (loss) for the year by the weighted average of fully-diluted shares issued and outstanding during the year, with the exception of treasury shares and including the number of shares that could potentially be issued.

The weighted average of shares outstanding used for the calculation of the diluted earnings (losses) per share was 1,013,151,531 in 2017 and 840,985,049 restated in 2016.

Reconciliation of the average number of shares used for the calculation of basic and diluted earnings per share is as follows:

	Dec. 31, 2016	Dec. 31, 2016 restated	Dec. 31, 2017
<b>Weighted average number of shares used for the calculation of the basic earnings (losses) per share</b>	<b>8,348,792,230</b>	<b>834,879,223</b>	<b>1,000,503,419</b>
Number of potential shares following stock grant plans	60,952,102	6,095,214	12,637,514
Number of savings shares convertible into ordinary shares	106,126	10,612	10,598
<b>Weighted average number of outstanding shares for diluted earnings (losses) per share</b>	<b>8,409,850,458</b>	<b>840,985,049</b>	<b>1,013,151,531</b>
Earnings (losses) attributable to Saipem (€ million)	(2,087)	(2,087)	(328)
Basic earnings (losses) per share (€ per share)	(0.25)	(2.50)	(0.33)
Diluted earnings (losses) per share (€ per share)	(0.25)	(2.48)	(0.32)

## 48 Segment information, geographical information and construction contracts

### Segment information

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Floater	Not allocated	Total
<b>December 31, 2016</b>							
Net sales from operations	5,935	3,196	1,307	661	1,870	-	12,969
less: intra-group sales	1,283	341	404	118	847	-	2,993
<b>Net sales to customers</b>	<b>4,652</b>	<b>2,855</b>	<b>903</b>	<b>543</b>	<b>1,023</b>	<b>-</b>	<b>9,976</b>
Operating result	212	(140)	(968)	(381)	(222)	-	(1,499)
Depreciation, amortisation and impairment	466	94	1,390	333	125	-	2,408
Net income (expense) from investments	21	(3)	-	-	-	-	18
Capital expenditure	117	8	94	77	-	-	296
Tangible and intangible assets	2,733	456	1,754	825	179	-	5,947
Investments <sup>(a)</sup>	130	10	-	7	-	-	147
Current assets	2,122	2,347	375	312	244	2,386	7,786
Current liabilities	2,084	1,986	191	164	679	567	5,671
Provisions for contingencies <sup>(a)</sup>	88	123	2	2	9	42	266
<b>December 31, 2017</b>							
Net sales from operations	4,926	3,697	1,037	598	1,143	-	11,401
less: intra-group sales	1,234	167	424	108	469	-	2,402
<b>Net sales to customers</b>	<b>3,692</b>	<b>3,530</b>	<b>613</b>	<b>490</b>	<b>674</b>	<b>-</b>	<b>8,999</b>
Operating result	334	(77)	63	(125)	(69)	-	126
Depreciation, amortisation and impairment	196	30	244	199	67	-	736
Net income (expense) from investments	3	(12)	-	-	-	-	(9)
Capital expenditure	114	8	78	62	-	-	262
Tangible and intangible assets	2,588	421	1,555	643	127	-	5,334
Investments <sup>(a)</sup>	116	19	-	6	-	-	141
Current assets	1,398	2,341	275	233	238	2,258	6,743
Current liabilities	1,510	1,835	76	111	528	427	4,487
Provisions for contingencies <sup>(a)</sup>	82	140	2	9	36	71	340

(a) See the section 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 71.

## Geographical information

Since Saipem's business involves the deployment of a fleet on a number of different projects over a single year, it is difficult to allocate assets to a specific geographic area. As a result, certain assets have been deemed not directly attributable.

The unallocated part of tangible and intangible assets and capital expenditure related to vessels and their related equipment and goodwill.

The unallocated part of current assets pertained to inventories related to vessels.

A breakdown of revenues by geographical area is provided in Note 38 'Net sales from operations'.

(€ million)	Italy	Rest of Europe	CIS	Rest of Asia	North Africa	West Africa	Americas	Unallocated	Total
<b>2016</b>									
Capital expenditure	14	3	9	64	-	1	16	189	296
Tangible and intangible assets	83	25	139	753	-	72	450	4,425	5,947
Identifiable assets (current)	881	648	1,341	1,972	475	901	900	668	7,786
<b>2017</b>									
Capital expenditure	17	6	12	46	-	2	12	167	262
Tangible and intangible assets	104	26	111	612	1	45	282	4,153	5,334
Identifiable assets (current)	1,463	473	446	2,049	475	720	476	641	6,743

Current assets were allocated by geographical area using the following criteria: (i) cash and cash equivalents and financing receivables were allocated on the basis of the country in which individual company bank accounts were held; (ii) inventory was allocated on the basis of the country in which onshore storage facilities were situated (i.e. excluding inventory in storage facilities situated on vessels); (iii) trade receivables and other assets were allocated to the geographical area to which the related project belonged.

Non-current assets were allocated on the basis of the country in which the asset operates, except for offshore drilling and construction vessels, which were included under 'Unallocated'.

## Construction contracts

Construction contracts were accounted for in accordance with IAS 11.

(€ million)	2016	2017
Construction contracts - assets	1,848	1,574
Construction contracts - liabilities	(1,109)	(1,034)
<b>Construction contracts - net</b>	<b>739</b>	<b>540</b>
Costs and margins (completion percentage)	10,093	9,686
Invoicing	(9,422)	(9,154)
Change in provision for future losses	68	8
<b>Construction contracts - net</b>	<b>739</b>	<b>540</b>

For 'Construction contracts - assets' please refer to Note 10, contract work in progress. The 'Construction contracts - liabilities' are obtained by adding the 'adjustments to revenues from long-term contracts' found in Note 20 (€984 million) and the 'provision for contractual expenses and losses on long-term contracts' found in Note 25 (€50 million). The 'Costs and margins (completion percentage)' equal to €9,686 million, are obtained by adding the 'Net sales from operations' found in Note 38 (€8,999 million), the value of construction contracts from the previous year (€739 million) and the effect of the translation of financial statements from the currencies of the items considered (negative for €52 million).

For 'Invoicing' and the 'Change in provision for future losses' please refer respectively to Notes 38 and 25.

## 49 Transactions with related parties

On January 22, 2016, following the entry into force of the transfer of 12.5% of Saipem SpA's share capital from Eni to CDP Equity SpA (ex Fondo Strategico Italiano), Eni no longer has sole control over Saipem SpA, which has been replaced by the joint control exercised by Eni and CDP Equity SpA, with a resulting variation in the perimeter of related parties. Transactions with related parties entered into by Saipem SpA and/or companies within the scope of consolidation concern mainly the supply of services, the exchange of goods with joint ventures, associates and unconsolidated subsidiaries, with subsidiaries, jointly-controlled entities and associates of Eni SpA, with several jointly-controlled entities and associates of CDP Equity SpA, and with entities owned controlled by the Italian State, in particular companies of the Snam Group. These transactions are an integral part of ordinary day-to-day business and are carried out under market conditions which would be applied between independent parties. All transactions were carried out for the mutual benefit of the Saipem companies involved. Pursuant to disclosure requirements of Consob Regulation No. 17221 of March 12, 2010, the following transactions with related parties were carried out in 2017:

- on July 27, 2017, a series of variations were finalised during work on the Contract between Saipem SA, Saipem Misr for Petroleum Services (S.A.E.) and the client Belayim Petroleum Co ('Petrobel'), a joint venture between IEOC (Eni branch in Egypt) and EGPC (Egyptian General Petroleum Corp), relating to the Contract for the execution of the 'Offshore Transportation and Installation Work for the Flowline and Subsea Structure Accelerated Start Up Phase for Zhor Field Development' (ref. 4600002712 and 4600002713). These variations worth the equivalent of USD 900 million for Engineering, Procurement, Construction and Installation (EPCI) activities in relation to the 'Optimised Ramp Up' phase of the 'supergiant' Zohr Field Development Project situated in the Mediterranean Sea off the Egyptian coast. The changes in the scope of its work include the installation of a 30-inch diameter gas export pipeline and the installation of an 8-inch diameter service pipeline, as well as EPCI work for field development in deep water (up to 1,700 m) of 4 wells and the installation of umbilical cables. Work will began in July 2017 and is schedule to be completed by the end of 2018;
- on December 13, 2017, Saipem SpA signed a company guarantee in favour of Eni SpA, as part of the executive planning and construction of the sub-section Treviglio-Brescia - Linea A.V./A.C. Milano-Verona, by the Consorzio CEPAV Due. The aforementioned guarantee increases the amount of a previous guarantee, issued for the same project in 2011, from €398,320,000 (lump-sum fee for the First Construction Lot) to €759,200,000 following the adjustment of the lump-sum fee for the Second Construction Lot, monetary adjustment and variants. This amount corresponds to Saipem's shareholding (52%) of the Consorzio CEPAV Due for the sub-section Treviglio-Brescia;
- on December 22, 2017, a contract was finalised between Saipem SA, Saipem Luxembourg SA (Sucursal Angola) and Petromar Lda and the customer Eni Angola SpA for the completion of an EPCI SURF Project in deep water concerning the complete development of two offshore fields, located in the Eni concession called West Hub - Block 15/06, off of the Angolan coast, West Africa;
- the transaction with Vodafone Italia SpA, which, pursuant to the provisions of Consob's Regulation concerning transactions with related parties of March 12, 2010 and Saipem's internal procedure 'Interests held by Board Directors and Statutory Auditors and transactions with related parties', is related to Eni SpA through a member of the Board of Directors. The transaction in question was carried out on an arm's length basis and essentially related to costs for mobile communication services amounting to €2 million.

The tables below show the value of transactions of a trade, financial or other nature entered into with related parties. The analysis by company is based on the principle of relevance in relation to the total amount of transactions. Transactions not itemised because they are immaterial are aggregated under the following captions:

- unconsolidated subsidiaries;
- joint ventures and associates;
- companies controlled by Eni and CDP Equity SpA;
- Eni and CDP Equity SpA associated and jointly-controlled companies;
- companies controlled by the State and other related parties.

## Trade and other transactions

Trade and other transactions during 2016 consisted of the following:

(€ million)

Name	Dec. 31, 2016			2016			
	Trade and other receivables	Trade and other payables	Guarantees	Expenses		Revenues	
				Goods	Services <sup>(1)</sup>	Goods and services	Other
<b>Unconsolidated subsidiaries</b>							
SAGIO - Companhia Angolana de Gestão de Instalação Offshore Lda	-	1	-	-	1	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
<b>Total unconsolidated subsidiaries</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Joint ventures and associates</b>							
ASG Scarl	-	5	-	-	(1)	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	44	83	131	-	75	98	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	6	6	121	-	2	-	-
Charville - Consultores e Servicos, Lda	1	-	-	-	-	1	-
Consorzio F,S,B,	-	-	-	-	1	-	-
CSFLNG Netherlands BV	-	-	-	-	-	6	-
Gruppo Rosetti Marino SpA	-	1	-	1	-	-	-
KWANDA Suporte Logistico Lda	64	10	-	-	3	7	-
Petromar Lda	93	16	4	-	-	22	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	6	8	-	-	38	-	-
Southern Gas Constructors Ltd	1	-	-	-	-	-	-
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	1	-	-	-	-	-	-
TMBYS SAS	4	-	-	-	-	1	-
TSGI Mühendislik İnşaat Ltd Şirketi	8	-	-	-	(1)	7	-
Xodus Subsea Ltd	3	2	-	-	2	-	-
Others (for transactions not exceeding €500 thousand)	-	1	-	-	-	-	-
<b>Total joint ventures and associates</b>	<b>231</b>	<b>132</b>	<b>256</b>	<b>1</b>	<b>119</b>	<b>142</b>	<b>-</b>
<b>Companies controlled by Eni and CDP Equity SpA</b>							
Eni SpA	52	3	2,081	-	8	52	-
Eni SpA Exploration & Production Division	9	-	2	(1)	-	24	-
Eni SpA Gas & Power Division	1	1	-	-	1	-	-
Eni SpA Refining & Marketing Division	2	-	11	4	-	4	-
Agip Kazakhstan North Caspian	-	-	20	-	-	3	-
Agip Oil Ecuador BV	2	-	1	-	-	4	-
Banque Eni SA	-	-	-	-	1	-	-
Eni Adfin SpA	-	2	-	-	4	-	-
Eni Angola SpA	57	-	57	-	-	250	-
Eni Congo SA	23	3	6	-	-	188	-
Eni Corporate University SpA	-	1	-	-	2	-	-
Eni East Sepinggan Ltd	25	-	1	-	-	23	-
Eni Insurance Ltd	7	8	-	-	(3)	-	-
Eni Lasmo PLC	10	3	-	-	-	3	-
Eni Mediterranea Idrocarburi SpA	-	-	-	-	-	1	-
Eni Muara Bakau BV	21	10	66	1	-	232	-
Eni Norge AS	15	-	-	-	-	130	-
EniServizi SpA	-	5	-	-	42	-	-
Eni Turkmenistan Ltd	2	-	-	-	-	(1)	-
First Calgary Petroleum Lp	-	-	100	-	-	-	-
leoc Exploration BV	-	-	1	-	-	-	-
leoc Production BV	2	-	-	-	-	42	-
Serfactoring SpA	-	1	-	-	-	-	-
Syndial SpA	-	-	3	-	-	-	-
Tecnomare SpA	-	-	-	-	1	4	-
Versalis France SAS	-	-	-	-	-	1	-
Versalis SpA	34	-	43	-	-	53	-

Trade and other transactions for 2016 continue below

(€ million)

Name	Dec. 31, 2016			2016			
	Trade and other receivables	Trade and other payables	Guarantees	Expenses		Revenues	
				Goods	Services <sup>(1)</sup>	Goods and services	Other
Others (for transactions not exceeding €500 thousand)	2	-	-	-	1	3	-
<b>Total companies controlled by Eni and CDP Equity SpA</b>	<b>264</b>	<b>37</b>	<b>2,392</b>	<b>4</b>	<b>57</b>	<b>1,016</b>	<b>-</b>
<b>Eni and CDP Equity SpA associated and jointly-controlled companies</b>							
Blue Stream Pipeline Co BV	-	-	-	-	-	1	-
Eni East Africa SpA	1	-	-	-	-	-	-
Greenstream BV	3	-	-	-	-	3	-
InAgip doo	-	-	1	-	-	-	-
Mellitah Oil&Gas BV	1	-	30	-	-	-	-
Petrobel Belayim Petroleum Co	130	158	-	-	-	248	-
PetroJunin SA	-	-	2	-	-	-	-
Pharaonic Petroleum Co	-	-	6	-	-	-	-
Valvitalia SpA	-	-	-	1	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
<b>Total Eni and CDP Equity SpA associated and jointly-controlled companies</b>	<b>135</b>	<b>158</b>	<b>39</b>	<b>1</b>	<b>-</b>	<b>252</b>	<b>-</b>
<b>Total Eni and CDP Equity SpA companies</b>	<b>399</b>	<b>195</b>	<b>2,431</b>	<b>5</b>	<b>57</b>	<b>1,268</b>	<b>-</b>
<b>Companies controlled or owned by the State</b>	<b>30</b>	<b>48</b>	<b>84</b>	<b>-</b>	<b>-</b>	<b>41</b>	<b>-</b>
<b>Total transactions with related parties</b>	<b>660 <sup>(2)</sup></b>	<b>376</b>	<b>2,771</b>	<b>6</b>	<b>177</b>	<b>1,451</b>	<b>-</b>
<b>Overall total</b>	<b>3,020</b>	<b>4,860</b>	<b>7,110</b>	<b>2,130</b>	<b>5,040</b>	<b>9,976</b>	<b>34</b>
<b>Incidence (%)</b>	<b>21.95 <sup>(3)</sup></b>	<b>7.74</b>	<b>38.97</b>	<b>0.28</b>	<b>3.51</b>	<b>14.55</b>	<b>-</b>

(1) The item 'Services' includes costs for services, costs for the use of third-party assets and other costs.

(2) Regarding the €663 million indicated on page 102 it is necessary to add €3 million shown in the following table 'Financial transactions'.

(3) Incidence includes receivables shown in the following table 'Financial transactions'.

Trade and other transactions during 2017 consisted of the following:

(€ million)

Name	Dec. 31, 2017			2017			
	Trade and other receivables	Trade and other payables	Guarantees	Expenses		Revenues	
				Goods	Services <sup>(1)</sup>	Goods and services	Other
<b>Unconsolidated subsidiaries</b>							
SAGIO - Companhia Angolana de Gestão de Instalação Offshore Lda	-	-	-	-	1	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
<b>Total unconsolidated subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Joint ventures and associates</b>							
ASG Scarl	-	2	-	-	2	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	8	49	144	-	21	31	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	3	6	119	-	4	-	-
Consorzio F.S.B.	-	-	-	-	1	-	-
KWANDA Suporte Logistico Lda	53	9	-	-	2	5	-
Petromar Lda	21	2	-	-	2	12	-
Rodano Consortile Scarl	-	1	-	-	-	-	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	8	8	-	-	7	-	-
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	1	-	-	-	-	-	-
TSGI Mühendislik İnşaat Ltd Şirketi	5	-	-	-	(1)	-	-
Xodus Subsea Ltd	3	2	-	-	-	-	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	-	-	-
<b>Total joint ventures and associates</b>	<b>103</b>	<b>79</b>	<b>263</b>	<b>-</b>	<b>38</b>	<b>48</b>	<b>-</b>

Trade and other transactions for 2017 continue below

(€ million)

Name	Dec. 31, 2017			Esercizio 2017			
	Trade and other receivables	Trade and other payables	Guarantees	Expenses		Revenues	
				Goods	Services <sup>(1)</sup>	Goods and services	Other
<b>Companies controlled by Eni and CDP Equity SpA</b>							
Eni SpA	3	3	1,189	-	5	8	-
Eni SpA Exploration & Production Division	4	-	-	-	-	48	-
Eni SpA Gas & Power Division	1	1	-	-	1	-	-
Eni SpA Refining & Marketing Division	5	-	11	-	-	12	-
Agip Kazakhstan North Caspian	-	-	2	-	-	-	-
Agip Oil Ecuador BV	2	-	-	-	-	9	-
Eni Adfin SpA	-	-	-	-	4	-	-
Eni Angola SpA	-	-	12	-	-	194	-
Eni Congo SA	25	3	6	-	-	96	-
Eni Corporate University SpA	-	1	-	-	2	-	-
Eni Cyprus Ltd	5	-	-	-	-	5	-
Eni East Sepinggan Ltd	-	-	-	-	-	1	-
Eni Gas e Luce SpA	-	-	-	-	1	-	-
Eni Ghana E&P	9	8	-	-	-	4	-
Eni Insurance Ltd	-	-	-	-	1	-	-
Eni Lasmo PLC	1	-	-	-	-	1	-
Eni Maroc BV	1	-	-	-	-	1	-
Eni Mediterranea Idrocarburi SpA	-	-	-	-	-	1	-
Eni Muara Bakau BV	16	4	17	-	-	81	-
Eni Norge AS	16	-	-	-	-	134	-
Eni Portugal BV	1	-	-	-	-	1	-
Eni Progetti SpA (ex Tecnomare SpA)	2	-	-	-	1	5	-
EniServizi SpA	-	2	-	-	36	-	-
First Calgary Petroleum Lp	-	-	100	-	-	-	-
leoc Exploration BV	-	-	1	-	-	-	-
Naoc - Nigerian Agip Oil Co Ltd	37	2	-	-	-	41	-
Serfactoring SpA	-	1	-	-	-	-	-
Syndial SpA	-	-	1	-	-	-	-
Versalis SpA	16	-	26	-	-	50	-
Others (for transactions not exceeding €500 thousand)	1	-	1	-	1	-	-
<b>Total companies controlled by Eni and CDP Equity SpA</b>	<b>145</b>	<b>25</b>	<b>1,366</b>	<b>-</b>	<b>52</b>	<b>692</b>	<b>-</b>
<b>Eni and CDP Equity SpA associated and jointly-controlled companies</b>							
Blue Stream Pipeline Co BV	-	-	-	-	-	1	-
Eni East Africa SpA	1	-	-	-	-	2	-
Greenstream BV	2	-	-	-	-	3	-
Mellitah Oil&Gas BV	-	-	30	-	-	-	-
Petrobel Belayim Petroleum Co	127	110	319	-	-	1,082	-
PetroJunin SA	-	-	2	-	-	-	-
Raffineria di Milazzo	1	1	-	-	-	1	-
Transmediterranean Pipeline Co Ltd	-	-	-	-	-	1	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
<b>Total Eni and CDP Equity SpA associated and jointly-controlled companies</b>	<b>131</b>	<b>111</b>	<b>351</b>	<b>-</b>	<b>-</b>	<b>1,090</b>	<b>-</b>
<b>Total Eni and CDP Equity SpA companies</b>	<b>276</b>	<b>136</b>	<b>1,717</b>	<b>-</b>	<b>52</b>	<b>1,782</b>	<b>-</b>
<b>Companies controlled or owned by the State</b>	<b>21</b>	<b>31</b>	<b>71</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>-</b>
<b>Total transactions with related parties</b>	<b>400 <sup>(2)</sup></b>	<b>246</b>	<b>2,051</b>	<b>-</b>	<b>91</b>	<b>1,866</b>	<b>-</b>
<b>Overall total</b>	<b>2,411</b>	<b>4,036</b>	<b>5,525</b>	<b>2,298</b>	<b>4,198</b>	<b>8,999</b>	<b>39</b>
<b>Incidence (%)</b>	<b>16.67 <sup>(3)</sup></b>	<b>6.10</b>	<b>37.12</b>	<b>-</b>	<b>2.17</b>	<b>20.74</b>	<b>-</b>

(1) The item 'Services' includes costs for services, costs for the use of third-party assets and other costs.

(2) Regarding the €402 million indicated on page 102 it is necessary to add €2 million shown in the next table 'Financial transactions'.

(3) Incidence includes receivables shown in the next table 'Financial transactions'.

The figures shown in the tables refer to Note 9 'Trade and other receivables', Note 20 'Trade and other payables', Note 37 'Guarantees, commitments and risks', Note 38 'Net sales from operations', Note 39 'Other income and revenues' and Note 40 'Purchases, services and other costs'.

The Saipem Group provides services to Eni Group companies in all sectors in which it operates, both in Italy and abroad.

Existing relations with entities controlled or owned by the State are mainly in relation to the Snam Group.

Other transactions consisted of the following:

(€ million)	Dec. 31, 2016		Dec. 31, 2017	
	Other assets	Other current liabilities	Other assets	Other current liabilities
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	2	-	1	-
Eni SpA	-	8	1	5
<b>Total transactions with related parties</b>	<b>2</b>	<b>8</b>	<b>2</b>	<b>5</b>
<b>Overall total</b>	<b>246</b>	<b>247</b>	<b>287</b>	<b>25</b>
<b>Incidence (%)</b>	<b>0.81</b>	<b>3.24</b>	<b>0.70</b>	<b>20.00</b>

## Financial transactions

Financial transactions for 2016 consisted of the following:

(€ million)	Dec. 31, 2016				2016		
	Cash and cash equivalents	Receivables <sup>(1)</sup>	Payables	Commitments	Expenses	Income	Derivative financial instruments
Petromar Lda	-	-	-	-	-	1	-
Eni SpA	-	-	-	-	(21)	13	(301)
Banque Eni SA	-	-	-	-	(41)	43	(10)
Eni Angola SpA	-	-	-	-	(3)	2	-
Eni Finance International SA	-	-	-	-	(43)	30	-
Eni Muara Bakau BV	-	-	-	-	(2)	2	-
Eni Norge AS	-	-	-	-	-	1	-
Serfactoring SpA	-	3	-	-	-	-	-
Petrobel Belayim Petroleum Co	-	-	-	-	-	2	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	(1)	-	-
<b>Total transactions with related parties</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>(111)</b>	<b>94</b>	<b>(311)</b>

(1) Shown on the balance sheet under 'Trade and other receivables' (€3 million).

Financial transactions for 2017 consisted of the following:

(€ million)	Dec. 31, 2017				2017		
	Cash and cash equivalents	Receivables <sup>(1)</sup>	Payables	Commitments	Expenses	Income	Derivative financial instruments
Petromar Lda	-	-	-	-	-	1	-
Serfactoring SpA	-	2	-	-	-	-	-
<b>Total transactions with related parties</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>

(1) Shown on the balance sheet under 'Trade and other receivables' (€2 million).

The incidence of financial transactions and positions with related parties was as follows:

(€ million)	Dec. 31, 2016			Dec. 31, 2017		
	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Short-term debt	152	-	-	120	-	-
Long-term debt (including current portion)	3,248	-	-	2,998	-	-
<b>Total</b>	<b>3,400</b>	<b>-</b>	<b>-</b>	<b>3,118</b>	<b>-</b>	<b>-</b>

(€ million)	2016			2017		
	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Finance income	867	94	10.84	309	1	0.32
Finance expense	(868)	(111)	12.79	(617)	-	-
Derivative financial instruments	(153)	(311)	203.27	85	-	-
Other operating income (expense)	-	-	-	-	-	-
<b>Total</b>	<b>(154)</b>	<b>(328)</b>		<b>(223)</b>	<b>1</b>	

The main cash flows with related parties were as follows:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Revenues and other income	1,451	1,866
Costs and other expenses	(183)	(91)
Finance income (expenses) and derivatives	(328)	1
Change in trade receivables and payables	174	130
<b>Net cash provided by operating activities</b>	<b>1,114</b>	<b>1,906</b>
Change in financial receivables	2	1
<b>Net cash flow from investments</b>	<b>2</b>	<b>1</b>
Change in financial payables	(5,995)	-
<b>Net cash from financing activities</b>	<b>(5,995)</b>	<b>-</b>
<b>Total cash flows with related parties</b>	<b>(4,879)</b>	<b>1,907</b>

The incidence of cash flows with related parties was as follows:

(€ million)	Dec. 31, 2016			Dec. 31, 2017		
	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Cash provided by operating activities	978	1,114	113.91	459	1,906	415.25
Cash used in investing activities	(279)	2	(0.72)	(282)	1	(0.35)
Cash flow from financing activities (*)	(3,253)	(5,995)	184.29	(207)	-	-

(\*) Net cash flow from (used in) financing activities does not include dividends distributed, net purchase of treasury shares or capital contributions by non-controlling interests.

### Information on jointly controlled entities

The table below contains information regarding jointly-controlled entities consolidated using the working interest method as of December 31, 2017:

(€ million)	Dec. 31, 2016	Dec. 31, 2017
Net capital employed	(53)	(55)
Total assets	63	58
Total current assets	63	58
Total non-current assets	-	-
Total liabilities	63	58
Total current liabilities	63	58
Total non-current liabilities	-	-
Total revenues	13	5
Total operating expenses	(13)	(5)
Operating profit	-	-
Net profit (loss) for the year	-	-

**50 Significant non-recurring events and operations**

No significant non-recurring events or operations took place in 2016 or 2017.

**51 Transactions deriving from atypical or unusual transactions**

In 2016 and 2017, no atypical and unusual transactions were reported.

**52 Events subsequent to year-end**

Information on subsequent events is provided in the section 'Subsequent events' of the 'Directors' Report'.

**53 Additional information: Algeria**

Further to the disclosures provided in the Algeria paragraph of the 'Legal proceedings' section, we note the following additional information with regard to projects under completed in Algeria as at December 31, 2017:

- funds in two current accounts (ref. Note 7) amounting to the equivalent of €70 million are currently frozen;
- trade receivables (ref. Note 9) amount to €7 million;
- the other provisions for risks and expenses (Note 25) amounted to €22 million, mainly for future expenses;
- other debt (ref. Note 20) amounts to €131 million;
- guarantees (ref. Note 37) on projects completed totalled €347 million.

**54 Additional information: Consob Resolution No. 20324**

On March 5, 2018, the Company released the following press release with which it acknowledged Resolution No. 20324 taken by the Consob Commission on March 2, 2018.

With reference to said resolution and at the beginning of the processes aimed at adopting the measure pursuant to Article 154-ter, paragraph 7, of Legislative Decree No. 58/1998 please refer to the specific annex.

## INFORMATION RELATING TO THE REMARK EXPRESSED BY CONSOB PURSUANT TO ARTICLE 154-TER, SUBSECTION 7, OF LEGISLATIVE DECREE NO. 58/1998, AND COMMUNICATION BY OFFICES OF CONSOB ON APRIL 6, 2018

On January 30, 2018, Consob, having concluded its inspection commenced on November 7, 2016 (which ended on October 23, 2017) and of which Saipem gave information in the Annual Report 2016, has informed Saipem that it has detected non-compliances in 'the Annual Report 2016, as well as in the Interim Consolidated Report as of June, 30 2017' with the applicable international accounting principles (IAS 1 'Presentation of Financial Statements'; IAS 34 'Interim Financial Reporting'; IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', par. 5, 41 and 42; IAS 36 'Impairment of Assets', par. 31, 55-57) and, consequently, has informed Saipem about the commencement 'of proceedings for the adoption of measures pursuant to Article 154-ter, subsection 7, of Legislative Decree No. 58/1998'.

With notes of February 13 and 15, 2018, the Company transmitted to Consob its own considerations in relation to the remarks formulated by the offices of Consob, highlighting the reasons for which it does not share such remarks.

On March 2, 2018, the Commission of Consob, partially accepting the remarks of the offices of Consob, informed Saipem of its own Resolution No. 20324 (the 'Resolution'), with which it ascertained the 'non conformity of the Saipem's Annual Report 2016 with the regulations governing their predisposition', without censuring the correctness of the Interim Consolidated Report as of June 30, 2017.

According to the Resolution, the non-conformity of the Saipem's Annual Report 2016 with the regulations which govern its predisposition, concerns in particular: (i) the incorrect application of the accounting principle of the accrual basis of accounting affirmed by the accounting principles IAS 1; (ii) the failed application of the accounting principle IAS 8 in relation to the correction of errors with reference to the financial statements of 2015; and (iii) the estimation process of the discount rate pursuant to the accounting principles IAS 36.

Consob has therefore asked the Company, pursuant to Article 154-ter, subsection 7, of Legislative Decree No. 58 of 1998, to disclose the following elements of information to the markets:

- (A) the shortcomings and criticalities revealed by Consob in relation to the accounting correctness of the financial statements mentioned above;
- (B) the applicable international accounting standards and the violations detected in relation thereto;
- (C) the illustration, in an appropriate pro forma consolidated income statements and balance sheet – with comparative data – of the effects that accounting in compliance with the regulations would have produced on 2016 balance sheet, income statement and shareholders' equity, for which incorrect information was supplied.

### A. Shortcomings and criticalities revealed by Consob regarding the correctness of accounting in the 2016 consolidated and statutory financial statements.

The shortcomings and criticalities encountered by Consob with regard to the 2016 consolidated and statutory financial statements can be substantially attributed to the following two items:

- (a) non-compliance of the '2016 consolidated and statutory Saipem SpA financial statements with reference to the comparative data for the financial year 2015';
- (b) non-compliance of the process of estimation of the discount rate underpinning the 2016 impairment test with accounting principle IAS 36 which requires that the Company must 'apply the appropriate discount rate to [...] future cash flows'.

With regard to point (a), the contestation concerns the non-compliance of the 2016 consolidated and statutory financial statements with:

- (i) IAS 1, par. 27, according to which 'an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting' and par. 28, according to which 'when the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework'; and
- (ii) IAS 8, par. 41, according to which '[...], material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period' and par. 42 according to which 'the entity must correct the material errors for the previous financial years retroactively in the first financial statements authorised for publication after their discovery as follows: (a) by newly determining the comparative figures for the financial year/years prior to the one in which the error was committed [...]'

In substance, in Consob's opinion, the circumstances at the basis of some of the write-downs recognised in the 2016 financial statements already existed, wholly or in part, when preparing 2015 financial statements. Indeed, Consob alleges that the Company approved 2016 consolidated and statutory financial statements without having corrected the 'material errors' contained in the consolidated and statutory financial statements of the previous administrative period, in relation to the following items:

- 'property, plant and equipment';
- 'inventories';
- 'tax assets'.

With regard to point sub (b), Consob alleges that the Company, for the purposes of the impairment test: (i) used a sole rate to actualise business unit cash flows, characterised by a different risk profile; (ii) did not consider the country risk in relation to some assets operating in specific geographical areas over a long period of time; (iii) did not take into account the significant changes in Company risk profile subsequent to the transaction that determined the deconsolidation of Saipem from the Eni Group.

### B. The applicable accounting standards and the violations encountered in relation thereto.

Consob holds that the 2016 consolidated and statutory financial statements of Saipem at December 31, 2016, were not compliant with the following accounting principles: IAS 1, IAS 8 and IAS 36.

Specifically, Consob has observed that the Company approved 2016 consolidated and statutory financial statements of 2016 without having corrected the 'material errors' contained in the consolidated and statutory financial statements of the previous period, in relation to the following items:

- 'property, plant and equipment';
- 'inventories';
- 'tax assets'.

With reference to the item 'properties, plants and equipment' for 2015, Consob alleges the incorrect application of IAS 16 Accounting Principle 'properties, plants and equipment' and of IAS 36.

Specifically, Consob alleges that some write offs carried out by the Company on 'properties, plants and equipment' in the 2016 consolidated financial statements 2016 should have been accounted for, at least in part, in the previous financial year.

In particular Consob alleges:

- (i) the non-correct application of IAS 36 with reference to the impairment test relating to the evaluation of some assets registered as 'properties, plants and equipment' of the Offshore Drilling business unit and with respect to the assets registered in the Offshore and Onshore Engineering & Construction business units. Consob's remarks refers to the methods of cash flow estimation expected from the use of said assets for the purposes of the application of the impairment test with respect to the financial year 2015 and specifically to the incorrect application of IAS 36: (a) par. 33, lett. a), according to which 'in measuring value in use an entity shall: a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence'; (b) par. 34 in the part that requires that management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate; (c) par. 35 in the part that refers to the approach to be followed when use is made of cash flow projections for a period of over five years, highlighting that said approach is allowed 'if [the entity] is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period';
- (ii) the non correct application of IAS 16, paragraphs 51, 56 and 57 with reference to useful residual life of some assets registered as 'properties, plants and equipment' of the Onshore Drilling business unit, of the Offshore Engineering & Construction business unit and of the Onshore Engineering & Construction business unit. Consob's remarks concern the circumstances that the review of the estimation of the useful residual life of assets cited (reported in the 2016 financial statements) should have already been done in the financial year 2015. Specifically, Consob alleges that IAS 16: (a) par. 51 was not correctly applied in the part that requests that 'the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; (b) par. 56 in the part that requires that 'the future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset'; par. 57 in the part that requires that 'the useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets'.

As a consequence of the above mentioned remarks, Consob likewise does not share the economic competence of the write off included in the 2016 consolidated and statutory financial statements with reference to some inventories and to a positive deferred tax asset related to the items criticised by Consob for which the economic competence of the write off according to Consob should have been accounted for in the 2015 financial year.

Consob notes in this regard:

- (i) IAS 2, par. 9, that 'inventories shall be measured at the lower of cost and net realisable value' and at par. 30 that 'estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise';
- (ii) IAS 12 in the part that requires at par. 34 that 'a deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised' and that 'to the extent that it is not probable that taxable profit will be available against which unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised'.

Furthermore, Consob criticizes the process of estimating the discount rate at the base of the impairment test for the financial year 2016 in so far as it is characterised by an approach that is not compliant with accounting principle, IAS 36 which requires that the Company 'must apply the discount rate appropriate to the future financial cash flows' More precisely, with respect to the financial year 2016 Consob does not share the fact that the Company, with reference to the execution of the impairment test: (i) has used a single rate to discount cash flows of different business units which are characterised by different risk profiles; (ii) has not considered the country risk in relation to some assets operating in specific geographical areas over a long period of time.

In relation to the above, Consob also alleges the violation of the principle of correct representation of the company's situation which would not guarantee the observance of fundamental assumptions and qualitative characteristics of information.

Consob believes, in fact, that the importance of the errors and the significance of the shortcomings can likewise determine the non-compliance of the aforementioned financial statements with the requirements of reliability, prudence and completeness, pursuant to principle IAS 1.

C. Illustration, in an appropriate pro forma consolidated income statements and balance sheet – with comparative data – of the effects that accounting in compliance with the regulations would have produced on 2016 balance sheet, the income statement and shareholders' equity, for which incorrect information was supplied.

While not sharing the judgement of non-compliance of the 2016 consolidated and statutory financial statements put forward by Consob in its Resolution, Saipem points out that the 2016 consolidated and statutory financial statements of the Company were approved by the Board of Directors on March 16, 2017 and by the Shareholders' Meeting on April 28, 2017 and were subject to audit pursuant to Legislative Decree No. 39 of January 27, 2010 and the report was issued on April 3, 2017.

In addition, with the press release of March 6, 2018, Saipem reported that 'the Board of Directors of Saipem, in disagreement with the Resolution of Consob, resolved on March 5, 2018 to appeal the Resolution in the competent judicial offices'.

In the press release dated March 21, 2018 Saipem reported that for the purposes of ensuring a correct interpretation, and in order to implement the findings of the Resolution, today the Company has filed a petition with Consob in order to obtain interpretative clarifications suitable for overcoming the technical and evaluation complexities related to the findings of the Authority and to be able, in this way, to inform the market correctly, reaffirming that it does not share – and has no intention of accepting – the judgement of non-compliance of the consolidated and statutory financial statements as at December 31, 2016.

Additionally, on April 6, 2018, after the closure of the market, the Offices of the Italian securities market regulator Consob (Divisione Informazione Emittenti - Issuer Information Division) announced with their communication No. 0100385/18 (the 'Communication'), that they started an administrative sanctioning procedure, claiming some violations pursuant to Articles 191 and 195 of Italian Legislative Decree No. 58/1998 (the 'Financial Law'), relating to the offer documentation (Informative Prospectus and Supplement to the Informative Prospectus) made available to the public by Saipem on the occasion of its capital increase operation, which took place in January and February 2016. The alleged violations were exclusively addressed to the members of the Board of Directors and the Chief Financial Officer/Officer Responsible for Financial Reporting in office at that time.

The Offices of Consob, in communicating their allegations to the interested parties also pointed out that, if the alleged violations were ascertained by the Commission of Consob at the outcome of the procedure, said violations *'would be punishable by an administrative fine between €5,000 and €500,000'*.

Saipem received notice of the communication solely as guarantor ex lege for the payment *'of any economic fines that may eventually be charged to the company executives at the outcome of the administrative procedure'*.

Saipem and all the company executives who have received the Communication, in reiterating their conviction as to the absolute correctness of their actions, will formulate exhaustive arguments in a timely manner to reply to the allegations of the Offices, and hereby trust that these arguments will be accepted by the Commission of Consob which will decide with respect to the aforementioned alleged violations in the sphere of an administrative procedure for which the term of conclusion *'is established in two hundred days starting from the thirtieth day after the date of completion of the last notification'* to the aforementioned company executives.

The allegations follow Consob Resolution No. 20324 of March 2, 2018 (the 'Resolution'), the content of which was communicated to the market by the Company with its press release of March 5, 2018. The resolution – with which, as also communicated to the market, the Company disagrees and that will be appealed in the appropriate legal venues – alleged, among other things, *'the incoherence of the assumptions and elements underlying the Strategic Plan for 2016-2019 with respect to the evidence at the disposal of the administrative bodies'*, as the indicators of possible impairment of value of the assets, later written down by Saipem in its nine-month interim report as of September 30, 2016 would already have existed, in the opinion of Consob, at the time of approval of the consolidated financial statements of 2015.

With its Communication, the Offices of Consob now charge the company executives who, at the time of the capital increase, performed management functions, with the violations that are the subject of the Resolution and have already been communicated to the market, as stated above. The Offices of Consob further claim certain *'elements relative to the inexact drafting of the declaration on the net working capital'* required by the standards in force on the subject of the framing of the informative prospectus.

The foregoing would imply, according to the Offices of Consob, *'the inability of the offer documentation to ensure that the investors would be able to formulate a well-grounded opinion about the equity and financial situation of the issuer, its economic results and prospects, pursuant to Article 94, sections 2 and 7, of the Financial Law, with regard to the information concerning: a) estimates of the Group's results for the fiscal year 2015 (Guidance 2015 and underlying assumptions); 'b) Group results forecast drawn from the Strategic Plan for 2016-2019 and underlying assumptions'; c) the declaration on the Net Working Capital'*.

Also according to the Offices of Consob, Saipem would have additionally omitted, in violation of Article 97, section 1 and Article 115, section 1, letter a), of the Financial Law, to report to Consob *'information pertaining to: (i) the assumptions underlying the declaration on its Net Working Capital; (ii) regarding the availability of an updated 'Eni Scenario' on the price of oil; and (iii) the existence of significant amendments to the assumptions underlying the Strategic Plan for 2016-2019'*.

## **CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE NO. 58/1998 'TESTO UNICO DELLA FINANZA' (CONSOLIDATED TAX LAW)**

1. The undersigned Stefano Cao and Mariano Avanzi in their capacity as CEO and manager responsible for the preparation of financial reports of Saipem SpA, respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No. 58 of February 24, 1998, certify that the internal controls over financial reporting in place for the preparation of the consolidated financial statements as of December 31, 2017 and during the period covered by the Report, were:

- adequate to the company structure, and
- effectively applied during the process of preparation of the Report.

2. Internal controls over financial reporting in place for the preparation of the consolidated financial statements as of December, 31 2017 have been defined and the evaluation of their effectiveness has been assessed based on principles and methodologies adopted by Saipem in accordance with the Internal Control - Integrated Framework Model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents an internationally-accepted framework for the internal control system.

3. The undersigned officers also certify that:

3.1 the consolidated financial statements as of December 31, 2017:

- a) were prepared in accordance with the evaluation and measurement criteria issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure set forth in Article 6 of the European Regulation (CE) No. 1606/2002 of the European Parliament and European Council of July 19, 2002;
- b) correspond to the company's evidence and accounting books and entries;
- c) fairly represent the financial, results of operations and cash flows of the Parent Company and the Group consolidated companies as of and for the period presented in this report;

3.2 the Directors' Report provides a reliable analysis of business trends and results, including a trend analysis of the Parent Company and the Group companies, as well as a description of the main risks and uncertain situations to which they are exposed.

March 5, 2018

/signed/ Stefano Cao  
Stefano Cao  
CEO

/signed/ Mariano Avanzi  
Mariano Avanzi  
Manager responsible for the preparation  
of financial reports of Saipem SpA



## Saipem S.p.A.

Consolidated financial statements as at December 31,  
2017

Independent auditor's report in accordance with article  
14 of Legislative Decree n. 39, dated 27 January 2010,  
and article 10 of EU Regulation n. 537/2014



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Independent auditor's report in accordance with article 14 of  
Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU  
Regulation n. 537/2014  
(Translation from the original Italian text)

To the Shareholders of  
Saipem S.p.A.

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Saipem Group (the Group), which comprise the balance sheet as at December, 31, 2017, and the income statement, the statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of Saipem S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

EY S.p.A.  
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Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.  
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Iscritta all'Albo Speciale delle società di revisione  
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Key Audit Matter	Audit Response
<p data-bbox="338 593 821 638"><b>Revenue recognition and valuation of construction contracts</b></p> <p data-bbox="338 660 821 862">The consolidated financial statements of Saipem Group include net sales from continuing operations for Euro 8.999 million. Such sales and the related profit are mainly related to construction contracts and are recognized in accordance with percentage of completion method, based on the costs incurred over the costs forecast to complete each project.</p> <p data-bbox="338 884 821 1108">The processes and methodologies for recognizing revenues and evaluating work in progress are based on valuation criteria which by their nature imply use of the management's judgement, particularly with reference to the estimate of contractual risks and penalties, where applicable, changes to contractual terms expected or being negotiated and changes in estimates as compared to the previous year.</p> <p data-bbox="338 1131 821 1310">Considering the materiality of revenues and assets and liabilities referred to construction contracts, the complexity of assumptions used in estimating the costs expected to complete the projects and the potential impact of changes in estimates on the net result of the year, we identified this area as a key audit matter.</p> <p data-bbox="338 1332 821 1579">The disclosures in the Notes to the consolidated financial statements related to revenue recognition and evaluation of construction contracts are included in note 4 "Accounting estimates and significant judgements - Revenue and contract work in progress", in note 38 "Net sales from operations" and in note 48 "Segment information, geographical information and construction contracts" of the consolidated financial statements.</p>	<p data-bbox="821 660 1324 705">Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> <li data-bbox="821 728 1324 795">i. assessment of processes and key controls implemented by Saipem S.p.A. related to planning and control over the projects;</li> <li data-bbox="821 817 1324 996">ii. assessment of the key assumptions used to estimate costs to complete the projects and to determine total revenues for a sample of significant contracts, through the analysis of internal projects' documentation and reports, inquiries with project managers and review of the contracts' terms;</li> <li data-bbox="821 1019 1324 1198">iii. analysis of the assumption that involved use of the management's judgement, specifically with reference to revenue recognition criteria related to projects' deviations or claims, through the analysis of both technical and legal appraisal prepared by Management's Expert;</li> <li data-bbox="821 1220 1324 1265">iv. execution of test of details on a sample of contracts' costs;</li> <li data-bbox="821 1288 1324 1332">v. test of percentages of completion for a sample of significant contracts.</li> </ul> <p data-bbox="821 1355 1324 1444">Lastly, we assessed the adequacy of disclosures provided in the consolidated financial statements related to revenue recognition and evaluation of construction contracts.</p>
<p data-bbox="338 1601 821 1635"><b>Impairment of assets</b></p> <p data-bbox="338 1657 821 1780">The consolidated financial statements of Saipem Group includes property plant and equipment for Euro 4.581 million and intangible assets for Euro 753 million, including goodwill for Euro 727 million.</p> <p data-bbox="338 1803 821 1836">The processes and methodologies for assessing and determining the recoverable value of each</p>	<p data-bbox="821 1657 1324 1713">Our audit procedures related to this key audit matters included, among others:</p> <ul style="list-style-type: none"> <li data-bbox="821 1736 1324 1836">i. assessment of processes and key controls implemented by the management related to impairment of assets, considering the impairment test methodology approved by the Board of Directors;</li> </ul>



Cash Generating Unit ("CGU"), are based on complex assumption that by their nature imply use of the management's judgment, in particular with reference to the forecast of future cash flows related to the period covered by the Strategic Plan 2018 - 2021 and beyond.

In particular, the assumptions related to acquisition of future contracts, their forecasted cash flows and expected margins, as well as the forecasted vessel daily rates, in the long term period, are relevant for the estimate of future cash flows.

Considering the judgment involved and the complexity of assumptions used in estimating the recoverable amount, we identified this area as a key audit matter.

The disclosures related to the impairment of assets are included in note 4 "Accounting estimates and significant judgements - Impairment of assets", in notes 14 "Property, plant and equipment" and in note 15 "Intangible assets" of the consolidated financial statements.

- ii. assessment of the adequacy in determining the CGUs and in allocating assets and liabilities to the carrying value of each CGU;
- iii. assessment of cash flows forecast included in the Strategic Plan 2018 - 2021 approved by the Board of Directors on March 5, 2018;
- iv. assessment of key assumptions used by management in their impairment test;
- v. assessment of the reasonableness of cash flow forecasts for each CGU including comparisons to historical data and considering internal and external evidence.

In performing our procedures we leveraged the use of EY valuation specialists who test of mathematical accuracy of the calculation and performed sensitivity analyses of key assumptions to determine any changes that could materially impact the valuation of the recoverable amount.

Lastly, we assessed the adequacy of disclosures provided in the consolidated financial statements related to impairment of assets.

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#### Contingent Liabilities

Saipem S.p.A. and some Group companies are involved in contractual, judicial and other administrative proceedings.

The process and methodologies for assessing the risks associated with such proceedings are based on complex elements that by their nature imply use of management's judgement, specifically with reference to the assessment of uncertainties related to forecasting the results of the proceedings that are not under the control of Saipem S.p.A. and its subsidiaries, their classification within provisions or other liabilities, and the adequacy of information provided in the consolidated financial statement, considering the assessment made by the internal legal department and by external legal counsels.

Considering the judgment involved and the complexity of certain assumptions connected to the contingent liabilities, we identified this area as a key audit matter.

Our audit procedures related to the key audit matters included, among others:

- i. assessment of processes and key controls implemented by Saipem S.p.A. in order to identify and evaluate contingent liabilities and related accruals in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*;
- ii. assessment of the assumption used by Saipem S.p.A. in estimating the outcome of potential legal claims, also considering information obtained from internal and external legal counsels, the Internal Audit group, the Audit Committee, management and the Company's Audit and Risk committee;
- iii. assessment, also through EY experts, of internal and external documentation related to such potential legal proceedings, information obtained from internal and



The disclosures related to the contingent liabilities are included in the note 4 "Accounting estimates and significant judgements – Contingencies" and in the paragraph "Legal Proceedings" of the consolidated financial statements.

external legal counsels, and technical reports provided by management's expert, as well as the assessment of their competence and capabilities.

Lastly, we assessed the adequacy of disclosures provided in the consolidated financial statements related to contingent liabilities.

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#### Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Saipem S.p.A. or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may

involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

#### Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholder of Saipem S.p.A., in the general meeting held on April 26, 2010, engaged us to perform the audits of the consolidated financial statements of each year ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in



their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n.537/2014.

## Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Saipem S.p.A. are responsible for the preparation of the Directors' Report and of the Corporate Governance and Shareholding Structure Report' of Group Saipem as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Directors' Report and of specific information included in the Corporate Governance and Shareholding Structure Report' as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Saipem Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Directors' Report and the above mentioned specific information included in the Corporate Governance and Shareholding Structure Report' are consistent with the consolidated financial statements of Saipem Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Saipem S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, April 5, 2018

EY S.p.A.  
Signed by: Marco Di Giorgio, partner

*This report has been translated into the English language solely for the convenience of international readers.*

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Società per Azioni  
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Publications  
Relazione finanziaria annuale (in Italian)  
Annual Report (in English)

Interim Consolidated Report as of June 30  
(in Italian and English)

Saipem Sustainability (in English)

Also available on Saipem's website:  
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