INTERIM CONSOLIDATED REPORT
AS OF JUNE 30, 2017

SAIPEM

Mission

We approach each challenge with innovative, reliable and secure solutions to meet the needs of our clients.
Through multicultural working groups we are able to provide sustainable development for our company and for the communities in which we operate.

Our values

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

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, 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
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[1]
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 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

INTERIM CONSOLIDATED REPORT
AS OF JUNE 30, 2017

Approved by the Board of Directors on July 24, 2017

INTERIM RESULTS

During the first half of 2017, the process of redefining the industrial and organisational structure of Saipem, which was launched in 2016 under the 'Fit For the Future 2.0' programme, was completed in order to cope with the structural market evolution and to favour, through a divisional model, the strategic repositioning of Saipem in the reference sector.
The organisational structure taken on by Saipem as of May 1, provides for dividing the company into 5 divisions (Onshore Engineering & Construction, Offshore Engineering & Construction, Onshore Drilling, Offshore Drilling, High Value Services). The results of the business sectors are published in line with the new organisational structure. The main difference lies in the Floaters business line, which was previously part of the Offshore Engineering & Construction division and is now included in the Onshore Engineering & Construction division. The results of the Floaters business line are temporarily displayed separately to facilitate understanding of the results and transaction to the new model; the results of the Onshore Engineering & Construction division are obtained by adding the Floaters and Onshore Engineering & Construction business results. The High Value Services division results are not reported separately because the division is still in the start-up phase.
The results of previous periods have been restated.

In the first half year of 2017, Saipem achieved positive results despite a market context that continues to the challenging.

Revenues amounted to €4,590 million (€5,275 million in the corresponding period of 2016), down 13% due to the reduction of business in the Offshore Engineering & Construction, Floaters and Drilling sectors.
Adjusted EBITDA for the half-year amounted to €524 million (€669 million in the first half of 2016), downturn in the Offshore Drilling sector, mainly due to the fewer contractual commitments of the fleet in Onshore Drilling, penalised by the reduced activity in South America and in Offshore Engineering & Construction due to a reduction in volume.
The adjusted net income for the first half of 2017 amounts to €92 million, while the net result is €110 million and was reduced by the following special items:
- impairment of the semi-submersible platform Scarabeo 5 and its inventory for €44 million due to changes in prospects for use;
- write-downs of tangible assets arising from the impairment test of €53 million, mainly due to the increase from 7.2% to 7.8% of the discount rate used;
- restructuring charges for €26 million (net of taxes);
- charges arising from the settlement of tax disputes for €79 million, as reported by the May 26, 2017 press release.

The Offshore Engineering & Construction sector accounted for 44% of revenues; Floaters accounted for 7% of revenues; the Onshore Engineering & Construction sector contributed 36% of revenues; the Offshore Drilling sector 7% of revenues and the Onshore Drilling sector generated 6% of revenues.

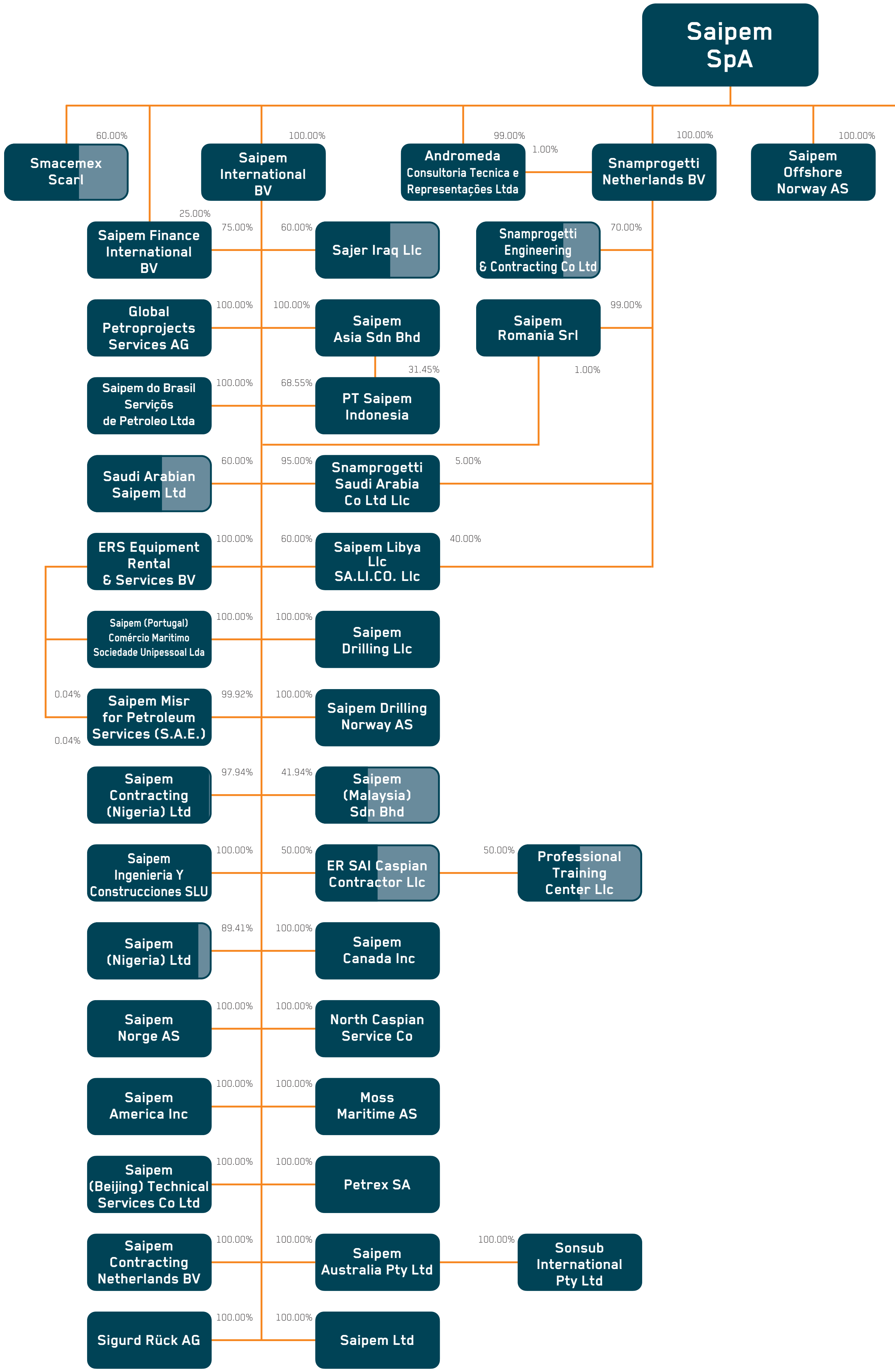
Net financial debt at June 30, 2017 amounted to €1,504 million, an increase of €54 million compared to December 31, 2016.

Capital expenditure in the first half of 2017 amounted to €147 million (€97 million in the first half of 2016).

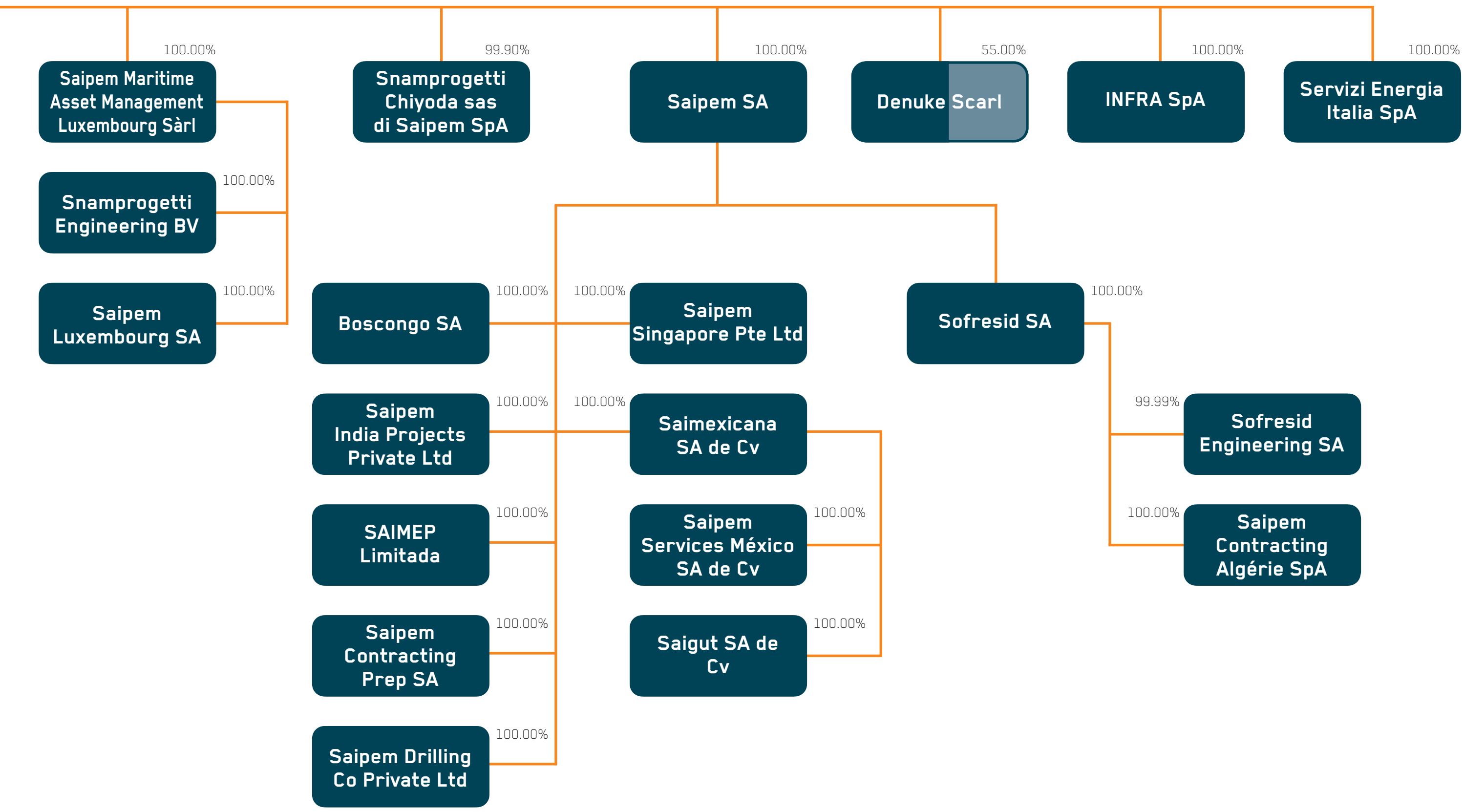
In the first half of 2017, Saipem was awarded new contracts amounting to a total of €2,088 million (€3,328 million in the first half of 2016). Saipem's backlog at June 30, 2017 stood at €11,717 million (€4,513 million in Offshore Engineering & Construction, €3,232 million in Onshore Engineering & Construction, €1,788 million in Floaters, €1,171 million in Offshore Drilling and €1,013 million in Onshore Drilling).

SHAREHOLDER STRUCTURE OF THE SAIPEM GROUP

(subsidiary companies)



Saipem SpA
Smacemex Scarl
60.00%
Saipem International BV
100.00%
Andromeda Consultoria Tecnica e Representações Ltda
99.00%
1.00%
Snamprogetti Netherlands BV
100.00%
Saipem Offshore Norway AS
100.00%
25.00%
Saipem Finance International BV
75.00%
Sajer Iraq Llc
60.00%
Snamprogetti Engineering & Contracting Co Ltd
70.00%
Global Petroprojects Services AG
100.00%
Saipem Asia Sdn Bhd
100.00%
Saipem Romania Srl
99.00%
31.45%
1.00%
Saipem do Brasil Serviços de Petroleo Ltda
100.00%
PT Saipem Indonesia
68.55%
Saudi Arabian Saipem Ltd
60.00%
Snamprogetti Saudi Arabia Co Ltd Llc
95.00%
5.00%
ERS Equipment Rental & Services BV
100.00%
Saipem Libya Llc SA.LI.CO. Llc
60.00%
40.00%
Saipem (Portugal) Comércio Marítimo Sociedade Unipessoal Lda
100.00%
Saipem Drilling Llc
100.00%
0.04%
Saipem Misr for Petroleum Services (S.A.E.)
99.92%
0.04%
Saipem Drilling Norway AS
100.00%
Saipem Contracting (Nigeria) Ltd
97.94%
Saipem (Malaysia) Sdn Bhd
41.94%
Saipem Ingenieria Y Construcciones SLU
100.00%
ER SAI Caspian Contractor Llc
50.00%
Professional Training Center Llc
50.00%
Saipem (Nigeria) Ltd
89.41%
Saipem Canada Inc
100.00%
Saipem Norge AS
100.00%
North Caspian Service Co
100.00%
Saipem America Inc
100.00%
Moss Maritime AS
100.00%
Saipem (Beijing) Technical Services Co Ltd
100.00%
Petrex SA
100.00%
Saipem Contracting Netherlands BV
100.00%
Saipem Australia Pty Ltd
100.00%
Sonsub International Pty Ltd
100.00%
Sigurd Rück AG
100.00%
Saipem Ltd
100.00%



The chart only shows subsidiaries

Operating and Financial Review

SAIPEM SpA SHARE PERFORMANCE

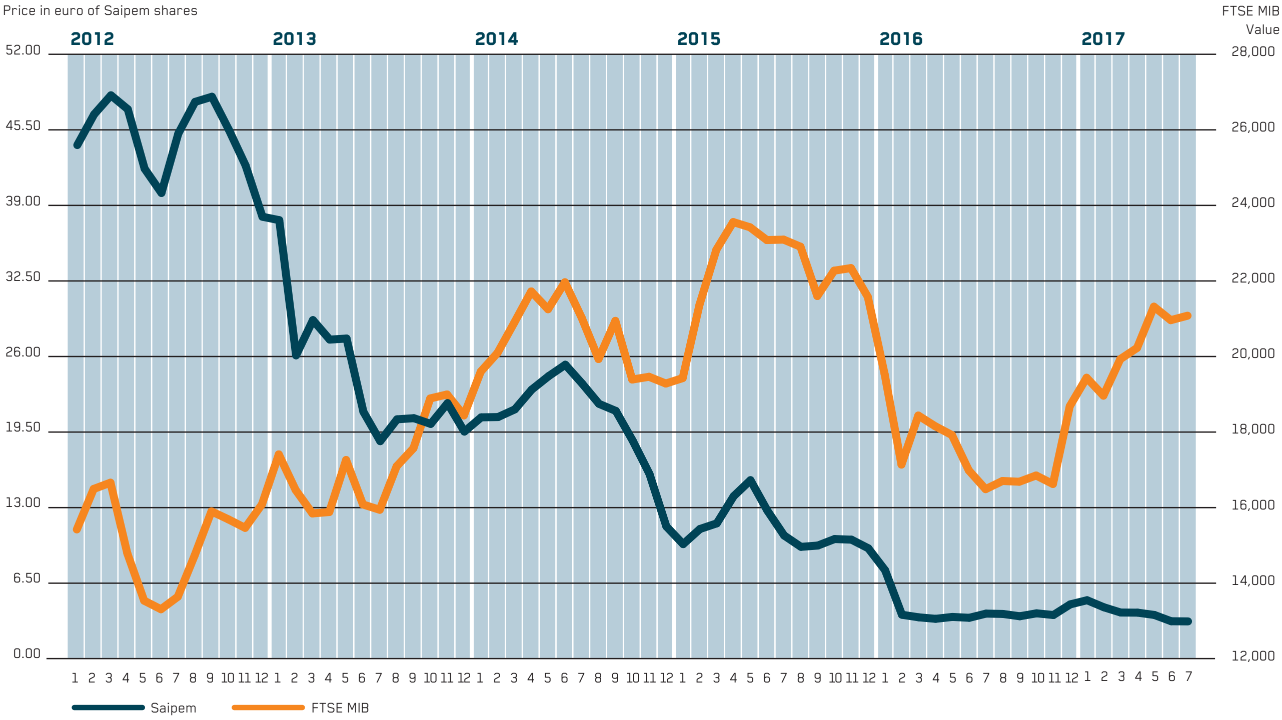
During the first half of 2017, the price of ordinary Saipem shares on the stock exchange (Borsa Italiana) decreased by approximately 40%, strongly impacted by the price per barrel and prospects for the Oil & Gas sector.
At the same time, we note that the American industry index, OSX, which includes service companies in the oil industry, fell by around 30%, while the FTSE MIB index, the largest Italian securities list, recorded an increase of 5%.
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 the first half of 2017 on January 3, at €5.65 per share.
The recovery of crude prices ran out January and the Brent price stabilised between $54 and $57 per barrel. At the same time, there was 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, investors saw a profit and sales determined a decline that brought the share to €4.74 by the end of January.
After a short period of relative stability, the share's downward trend resumed at the end of February following the publication of 2016 annual report which showed a negative market outlook. At this stage, the share reached a price of €4.
The negative trend reversed in the last days of March thanks to a steady rise in oil prices. On April 3, the share price rose to €4.35 in a climate of cautious optimism: this period marked the success of the bond market placement of a new Eurobond issued by Saipem worth €500 million, and a technology and innovation event that was favourably received by financial analysts.
At the end of April, the results of the first quarter were disseminated, in line with the goals announced for the current year.
The initial rebound of the share was countered as a result of growing fears regarding prospects in 2018 caused by the low number of new orders in the first three months of the year. The share price stayed above €3.90 up to the final days of May, supported by the acquisition of new offshore projects in the Offshore Engineering & Construction division for about $500 million.
On May 25, OPEC decided to extend the cuts already announced at the end of 2016 for another nine months, without further decreases in production. The decision renewed market pessimism regarding price per barrel prospects, as OPEC cuts are essentially absorbed by the recovery in shale production in America and other countries (Libya and Nigeria), and creates a new drop in prices: Brent drops again for the first time since autumn 2016, to under $45 a barrel. Mistrust also prevailed on the prospects for new investments in Oil & Gas and, consequently, in the oil services sector: the Saipem share fells to €3.20 on June 23, achieving the minimum since the beginning of the year and closed the period at €3.32.

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 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 June 30, 2017 was approximately €3.3 billion. In terms of share liquidity, 1.1 billion shares were traded during the half year, with a daily average in the period of 8.6 million shares exchanged. The value of shares traded amounted to €4.6 billion, comparable to what was recorded during the first half of the 2016.
As regards savings shares, which are convertible at par with ordinary shares, at the end of June 2017 there were 10,612.
During the first half of the year, their value, influenced by poor cash flow decreased by 19% having reached a share price of €43.91 at the end of the period.

Listings on the Milan Stock Exchange	(€)	2013	2014	2015	2016	First half 2017
Ordinary shares:						
- maximum		40.51	26.29	16.06	9.17	5.65
- minimum		15.86	10.46	8.94	3.02	3.20
- average		24.31	20.88	11.33	4.23	4.22
- period-end		19.57	11.05	9.47	5.36	3.32
Savings shares:						
- maximum		214.68	128.74	110.71	62.00	60.00
- minimum		98.14	99.49	58.27	39.00	43.00
- average		150.28	113.96	96.28	57.17	49.40
- period-end		104.89	110.71	58.27	54.10	43.91

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

Saipem and FTSE MIB - Average monthly prices January 2012-July 2017



GLOSSARY

Financial terms

- **Adjusted EBIT** operating result net of special items.
- **Adjusted EBITDA** gross operating margin net of special items.
- **EBIT** (earnings before interest and tax).
- **EBITDA** (earnings before interest, taxes, depreciation and amortisation).
- **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) composed of thirty-five developed countries having in common a democratic system of government and a free market economy.
- **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.
- **Write-off** cancellation or reduction of the value of an asset.

Operational terms

- **Brownfield** oil fields with few exploitable resources or that have come to a stage of declining production for which an attempt is made to extend producing life of the field by using cost-effective, low risk technologies.
- **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 (i.e. an oil company) and a contractor/lessor, whereby the lessee 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

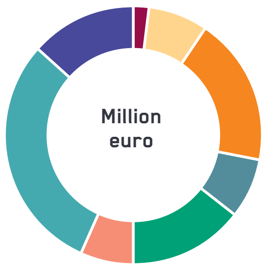
For 2017, global GDP growth is expected to increase by 3.5% compared to 2016, with a slow recovery in the economy, mainly due to expectations of recovery in overall demand and a reduction in deflation. At the same time, the depreciation of the euro against the dollar stopped, after 2016 closed with a euro-dollar exchange rate at its lowest in recent years. During the first few months of 2017, oil prices reached close to $60 a barrel, due to reduced production agreements signed by OPEC countries and Russia. In the second quarter, there was a return to the average values of 2016 (around $45 a barrel), mainly due to higher than expected production in North America. The prolonged fall in prices led to a progressive reduction in the volume of investments in Oil & Gas compared to the peak reached in 2014, with a delay in the awarding of projects and cancellations of high-risk initiatives. Further reductions in the volume of investment by oil companies recorded in 2016 followed signs of recovery recorded in the first half of 2017, but concentrated almost exclusively on the North American market, mainly for Onshore Drilling, confirming ongoing difficult market conditions.

New contracts and backlog

New contracts awarded to the Saipem Group during the first half of 2017 amounted to €2,088 million (€3,328 million in the first half of 2016).
65% of all contracts awarded were in the Offshore Engineering & Construction sector, 13% in the Onshore Engineering

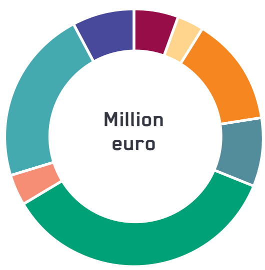
NEW CONTRACTS BY GEOGRAPHIC AREA

(€2,088 million)



ORDER BACKLOG BY GEOGRAPHIC AREA

(€11,717 million)



Saipem Group - New contracts awarded during the first half of 2017

Year 2016 [(1)]		(€ million)	First half 2016 [(1)]		First half 2017	
Amount	%		Amount	%	Amount	%
1,472	18	Saipem SpA	554	17	260	12
6,877	82	Group companies	2,774	83	1,828	88
8,349	100	Total	3,328	100	2,088	100
5,274	63	Offshore Engineering & Construction	2,145	64	1,345	65
2,170	26	Onshore Engineering & Construction	996	30	278	13
31	-	Floaters	7	-	166	8
134	2	Offshore Drilling	63	2	253	12
740	9	Onshore Drilling	117	4	46	2
8,349	100	Total	3,328	100	2,088	100
703	8	Italy	674	20	46	2
7,646	92	Outside Italy	2,654	80	2,042	98
8,349	100	Total	3,328	100	2,088	100
309	4	Eni Group	155	5	316	15
8,040	96	Third parties	3,173	95	1,772	85
8,349	100	Total	3,328	100	2,088	100

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

& Construction sector, 8% in Floaters, 12% in the Offshore Drilling sector and 2% in the Onshore Drilling sector.
New contracts to be carried out abroad make up 98% of the total, showing a greater incidence compared to the same period of 2016; contracts awarded by Eni Group companies were 15% of the overall figure. Orders awarded to the parent company Saipem SpA amounted to 12% of the overall total.
The backlog as at June 30 amounts to €11,717 million.

The breakdown of the backlog by sector is as follows: 38% in the Offshore Engineering & Construction sector, 28% in the Onshore Engineering & Construction sector, 15% in Floaters, 10% in Offshore Drilling and 9% in Onshore Drilling.

94% of orders were on behalf of overseas clients, while orders from Eni Group companies represented 8% of the overall backlog. The parent company Saipem SpA accounted for 35% of the total order backlog.

Saipem Group - Backlog as at June 30, 2017

Dec. 31, 2016 [1]		(€ million)	June 30, 2016 [1]		June 30, 2017	
Amount	%		Amount	%	Amount	%
4,899	34	Saipem SpA	5,144	37	4,063	35
9,320	66	Group companies	8,755	63	7,654	65
14,219	100	Total	13,899	100	11,717	100
5,188	36	Offshore Engineering & Construction	4,177	30	4,513	38
4,616	32	Onshore Engineering & Construction	4,864	35	3,232	28
1,960	14	Floaters	2,428	18	1,788	15
1,241	9	Offshore Drilling	1,586	11	1,171	10
1,214	9	Onshore Drilling	844	6	1,013	9
14,219	100	Total	13,899	100	11,717	100
822	6	Italy	996	7	657	6
13,397	94	Outside Italy	12,903	93	11,060	94
14,219	100	Total	13,899	100	11,717	100
983	7	Eni Group	1,358	10	891	8
13,236	93	Third parties	12,541	90	10,826	92
14,219	100	Total	13,899	100	11,717	100

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

Capital expenditure

Capital expenditure in the first half of 2017 amounted to €147 million (€97 million in the first half of 2016) and mainly related to:
- €41 million in the Offshore Engineering & Construction sector: for maintenance and upgrading of the existing asset base;
- €2 million in the Onshore Engineering & Construction sector: purchase of equipment;
- €63 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, as well as maintenance and upgrading of the existing asset base;
- for Onshore Drilling €41 million: upgrading of rigs for operations in Kuwait and Saudi Arabia, in the framework of contracts in the backlog, as well as the upgrading and maintaining of other assets.

In summary, the following table provides a breakdown of capital expenditure in the first half of 2017:

Investments

Year 2016	(€ million)	First half 2016	2017
59	Saipem SpA	23	32
237	Group companies	74	115
296	Total	97	147
117	Offshore Engineering & Construction	51	41
8	Onshore Engineering & Construction	4	2
94	Offshore Drilling	18	63
77	Onshore Drilling	24	41
296	Total	97	147

OFFSHORE ENGINEERING & CONSTRUCTION

General overview

The Saipem Group possesses both a strong, technologically advanced and highly-versatile fleet and world class engineering and project management expertise. These distinctive skills and competencies, coupled with a strong presence in strategic border markets due to the presence of manufacturing yards in some countries, Nigeria, Angola, Brazil, Saudi Arabia and Indonesia, and provide 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 48" in diameter (including coating) with a tensioning capacity of up to 750 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 A0).

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, a special vessel for the development of deep-water fields, 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 technologically advanced 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 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 also enjoys a strong position in the subsea market, thanks to the Sonsub business line and its use of highly sophisticated technologies such as subsea remote operated vehicles (ROVs and Hydrone) capable of carrying out complex deep-water pipeline operations, as well as the study and industrialisation of underwater processing and underwater treatment systems, such as the SPRINGS, which deals with the subsea treatment of sea water and the injection of seawater into the wells that has been developed together with Total and Veolia.

Market conditions

In 2017, the level of contract awards in the Offshore Engineering & Construction sector is expected to be substantially in line with 2016 and is characterised by projects that are small in scale and complexity. In terms of investments made by Oil Companies, 2017 is setting out to be a year with a slight improvement over the previous one (with estimates worth around $65 billion).
The geographic areas with the highest levels of activity are once again in Asia-Pacific, Europe and Latin America.

Subsea developments declined compared to 2016. Among the most important contract awards of the current year, Liza (ExxonMobil) in the Gulf of Mexico is expected to be installed, with about thirty subsea units being installed. North Africa is projected to be one of the key areas for subsea developments in the current year, thanks to the continuing Zohr (Petrobel) project and the Atoll (BP) project in Egypt, the latter of which could exceed the final investment decision (FID) by the end of the year.

The subsea pipeline segment is expected to register growth compared with 2016.
The driving area is that of Asia-Pacific, where major projects are underway including Ichthys (Inpex) in Australia, which represents the largest Australian oil discovery in recent decades, followed by Europe and Latin America. The availability of equipment and an overall decline in demand also had a negative effect on the rates of use of deep water vessels, leading several contractors to accelerate the withdrawal of obsolete vessels.

With regard to large-diameter pipelines, the TurkStream (Gazprom) offshore pipelaying project began in the first half of 2017, it is a pipeline linking Russia to Turkey and is expected to be productive by the end of 2019.

As regards the installation of fixed platforms, the trend of recent years shows a substantial drop, compared to the peak of 2014. Following the further downturn in 2016, forecasts for installations over the next few years are still expected to decrease as they are affected by the low volumes of activity recorded in recent years in the fixed platform segment. The most active area remains Asia-Pacific, followed by the Middle East, thanks to projects such as Umm Lulu (Adma-Opco) in the United Arab Emirates.

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 the first half of 2017 were related to:
- for ExxonMobil, an EPIC 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 meters.
  The contract also includes the transport and installation of umbilicals, foundations and collectors for wells and water and gas injection wells and systems;
- for BP, a contract in the North Sea that encompasses dismantling of the Miller platform topside and jacket;
- for Saudi Aramco, in the framework of the existing Long Term Agreement renewed in 2015 to 2021, a contract in Saudi Arabia. The scope of work 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.

Work performed

The biggest and most important projects underway or completed during the first half of 2017 were as follows.

In Saudi Arabia, for Saudi Aramco:
- engineering and procurement activities began on the **19 jackets** project, 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 began 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 Indonesia, for BP Berau Ltd, engineering and procurement activities continued and fabrication activities began 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;
- on behalf of 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;
- work continued for Port Autonome de Pointe-Noire on the **Container Terminal** project which includes the design, reconstruction and extension of docks G & D in Pointe-Noire.

In Kuwait, for the Kuwait National Petroleum Corp (KNPC), work is underway in the framework of the construction of the new **Al-Zour** refinery, Package 5, in joint venture with Hyundai Engineering & Construction and SK Engineering & Construction. The project encompasses the design, procurement, construction, pre-commissioning and assistance during commissioning tests, start-up and performance check for solid object management pier and transportation of sulphur, subsea discharge lines, a construction port zone, an offshore island and a small naval port.

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;
- for BP activities began 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.

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, from 2017, management of a maritime base.

In Egypt, for Petrobel, installation continued for the **Zohr** project, encompassing expansion project, which encompasses 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.

In Kazakhstan:
- for the North Caspian Operating Co (NCOC) 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 continued 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 will be delivered during 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 and should terminate in 2018.

In the Gulf of Mexico, for Pemex, in the framework of the project for the development of the **Lakach** field, during the first half of the year work was reduced to a minimum and suspended in April of last year. The project encompasses services of engineering, procurement, construction and installation of the system connecting the offshore field with the onshore gas conditioning plant.

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 Venezuela, for PDVSA the first phase of the **Mecor** project, which involved the installation of underwater pipelines, was completed.

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

Offshore fleet at June 30, 2017

Saipem 7000	Self-propelled, semi-submersible, dynamically positioned crane and pipelay vessel capable of lifting structures of up to 14,000 tonnes and J-laying pipelines at depths of up to 3,000 metres.
Saipem FDS	Dynamically positioned vessel utilised for the development of deep-water fields at depths of over 2,000 metres. Capable of launching 22" diameter pipes in J-lay configuration with a holding capacity of up to 750 tonnes (upgrade to 750 tonnes currently underway) and a lifting capacity of up to 600 tonnes.
Saipem FDS 2	Dynamically positioned vessel utilised for the development of deep-water fields, capable of launching pipes with a maximum diameter of 36" in J-lay mode with a holding capacity of up to 2,000 tonnes and depths up to 3,000 metres. Also capable of operating in S-lay mode with a lifting capacity of up to 1,000 tonnes.
Castoro Sei	Semi-submersible pipelay vessel capable of laying large diameter pipe at depths of up to 1,000 metres.
Castorone	Self-propelled, dynamically positioned pipe-laying vessel operating in S-lay mode with a 120-metre long S-lay stern ramp composed of 3 articulated and adjustable stinger sections for shallow and deep-water operation, a holding capacity of up to 750 tonnes (expandable to 1,000 tonnes), pipelay capability of up to 60 inches, onboard fabrication facilities for triple and double joints and large pipe storage capacity in cargo holds.
Normand Maximus	Dynamic positioning ship (acquired through a long-term lease) for laying umbilicals and flexible lines up to a depth of 3,000 metres. It is equipped with a crane that has a lifting capacity of up to 900 tonnes and a 550-tonne vertical lay tower with the possibility of laying rigid flow lines.
Saipem 3000	Mono-hull, self-propelled D.P. derrick crane ship, capable of laying flexible pipes and umbilicals in deep waters and lifting structures of up to 2,200 tonnes.
Castoro II	Derrick lay barge capable of laying pipe of up to 60" diameter and lifting structures of up to 1,000 tonnes.
Castoro 10	Trench/pipelay barge capable of burying pipes of up to 60" diameter and of laying pipes in shallow waters.
Castoro 12	Pipelay barge capable of laying pipes of up to 40" diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
Castoro 16	Post-trenching and back-filling barge for pipes of up to 40" diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
Ersai 1	Heavy lifting barge equipped with 2 crawler cranes, capable of carrying out installations whilst grounded on the seabed and is capable of operating in S-lay mode. The lifting capacities of the 2 crawler cranes are 300 and 1,800 tonnes, respectively.
Ersai 2	Work barge equipped with a fixed crane capable of lifting structures of up to 200 tonnes.
Ersai 3	Support barge with storage space, workshop and offices for 50 people.
Ersai 4	Support barge with workshop and offices for 150 people.
Bautino 1	Shallow water post trenching and backfilling barge.
Bautino 2	Cargo barge for the execution of tie-ins and transportation of materials.
Ersai 400	Accommodation barge for up to 400 people, equipped with gas shelter in the event of an evacuation due to H_2S leaks.
Castoro XI	Heavy-duty cargo barge.
Castoro 14	Cargo barge.
Castoro 15	Cargo barge.
S42	Cargo barge, currently used for storing the J-lay tower of the Saipem 7000.
S43	Cargo barge.
S44	Launch cargo barge, for structures of up to 30,000 tonnes.
S45	Launch cargo barge, for structures of up to 20,000 tonnes.
S46	Cargo barge.
S47	Cargo barge.
S 600	Launch cargo barge, for structures of up to 30,000 tonnes.

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 areas and challenging environments.

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

Market conditions

The world market has been progressively narrowing over the last two years.
Oil companies have reduced their investments due to the collapse of the oil price, which compared to peak values in 2014 fell by more than 70% in 2016. The negative trend in EPC contract awards stopped in the first half of 2017, when important EPC contract awards were recorded in all three main Onshore Engineering & Construction segments (Upstream, Midstream and Downstream) with equivalent volumes.

On a global level, there was a consistent share of EPC projects awarded in the Middle East (Iran, Saudi Arabia, Kuwait, UAE, Oman and Iraq), distributed equally throughout the Upstream, Petrochemical and Refining segments and to a lesser degree in the Fertilizer segments and in almost all Onshore Engineering & Construction segments (mainly Petrochemical, Upstream and LNG). In Nord America (Stati Uniti) nei segmenti Condotte e Petrolchimica; in North Africa (Algeria and Egypt), in Upstream and Petrochemical segments.

The Upstream segment has been hit hard by the substantial reduction in investment by oil companies, and unfavourable market conditions have caused the postponement or cancellation of many new projects.
The tremendous effort made by service companies to keep costs down and remain competitive and the apparent stabilisation of the oil price on more compatible investment values have led to the award of major contracts in Russia and the Middle East.

The Pipeline segment has seen significant 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. Demand in the CIS area is favoured by a greater demand for connections between Russia and the Caspian areas with Europe and Asia and the substantial investments planned in China and India for continuous improvement of the gas distribution network. 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, the downward trend in the price of oil does not have a major influence on deciding which projects to implement.

The value of EPC contracts in the LNG segment is lower than the amounts of previous years. In the first half of 2017, investments for many of the EPC contracts are still pending approval, and this is due to the expected increase in global LNG production associated with the launch of new liquefaction plants in North America and Australia. The segment is influenced by the expectation of an abundant production capacity and a price for liquefied gas which will probably remain low in the medium- and long-term. The regasification sector is still offering new investment opportunities in Asia-Pacific and South America.

The Refining segment also saw a reduction of the value of contracts avarded globally in the first half of 2017, with most of the EPC contracts in the Middle East (Iran, Saudi Arabia, UAE). 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. While there was a decline in investment in the short to medium term, caused by a shift forward of some projects, the volume remains considerable and involves the totality of the geographic areas monitored.

The Petrochemical segment rebounds on the lowest levels achieved in the previous six months with some major acquisitions in the Middle East (Iran, Saudi Arabia), North America (USA), CIS (Russia) and North Africa (Egypt). 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.

Awards of new EPC projects in the Fertiliser segment are at their lowest compared to the average over recent years, even though there was an important contract award in the Middle East (Oman). The segment remains active thanks to an award in the 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 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

During the first half of 2017, changes were negotiated exclusively on contracts already in the portfolio.

Work performed

The largest/most important projects underway or completed during the first half of 2017 were:

In Saudi Arabia:
- 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;
- work continued for Petrorabigh (a joint venture between Saudi Aramco and Sumitomo Chemical) on the contract for the Naphtha and Aromatics Package of the **Rabigh II** project, which encompasses the engineering, procurement and construction of two processing units: a naphtha reformer unit and an aromatics complex, as well as addition work awarded in the first half of 2016;
- 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, Shedgum and Qurayyah 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** sourgas 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. While waiting for the guarantee period to end, negotiations are still ongoing for the recognition of change orders and claims which emerged during project execution;
- 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:
- 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;
- 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.

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 Kazakhstan, work continued on behalf of 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 **Tangguh 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. Originally situated in Edo State, the plant was relocated by the client to the Lekki Free Trade Zone, Lagos State. The scope of work encompasses engineering, procurement and construction of two twin production streams and related utilities and off-site facilities;
- complex work is underway for Southern Swamp Associated Gas Solution (SSAGS) on the **Southern Swamp** contract, comprising engineering, procurement, construction and commissioning of compression facilities at four sites and of new gas central production facilities at one of the sites, which will treat the routed associated gas.

In Italy:
- for Ital Gas Storage (IGS), work is underway on engineering and procurement and construction 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), work finished 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:
- work is underway for Transcanada (Transportadora de Gas Natural Norte - Noroeste) on the **El Encino** project, comprising engineering, procurement and construction of a pipeline from El Encino (Chihuahua State) to Topolobampo (Sinaloa State);
- work continued for Pemex on the **Tula and Salamanca** contract for the construction of two desulphurisation units and two amine regeneration units to be built at two of the client's refineries. The facilities will be built at the Miguel Hidalgo refinery, located 2,000 metres above sea level near the town of Tula and at the Antonio M. Amor refinery, located 1,700 metres above sea level near the town of Salamanca. The provisional acceptance certificate has been obtained for the two plants;
- for Fermaca Pipeline El Encino, work is underway on the EPC **Fermaca Compressor Station** project that encompasses engineering, procurement, construction and support with commissioning of a new compression station in El Encino;

In Azerbaijan and Georgia, for the Shah Deniz consortium, activities related to the **SPCX Pipeline** contract are underway, encompassing the construction of a pipeline which connects the two countries and above ground installations. Both worksites are in full operational phase.

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.

In 2017, the FPSO market is showing some positive signs that are evident in the resumption of orders for new units, after the minimum reached in 2016. Ca Rong Do (Repsol) in Vietnam and MTC Ledang (Ophir) in Malaysia are the two contracts awarded in the first half of 2017, whereas by the end of the year there are a total of six contract awards located in Asia-Pacific (KG-DWN of ONGC India, Husky Oil MDA and Ande Lumut of Santos, both in Indonesia), Latin America (Libra and Sepia of Petrobras in Brazil) and Europe (Shell Penguins in the UK).

The FLNG market saw the recent 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. However, the industry is suffering from uncertainty in the future market due to the low price of LNG and the technical complexity that characterises such plants. Some orders have recently been cancelled, such as the second FLNG unit for Exmar, and others have been postponed, such as the Ophir Energy **Fortune FLNG** project, the FID for which is expected sometime in 2017. Numerous initiatives are still in the feasibility/FEED stage, such as Scarborough (ExxonMobil) and Greater Tortue (BP).

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 half 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 the first half of 2017 were:
- in Angola, for Total, work on the conversion of the hulls and fabrication of topsides are underway on the **Kaombo** EPCI project, which encompasses engineering, procurement and commissioning of two FPSO vessels;
- 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 carried out operations during the period:

- the **FPSO Cidade de Vitoria** carried out operations for Petrobras as part of an eleven-year contract on the second phase of development of the Golfinho field, situated off the coast of Brazil at a water depth of 1,400 metres;
- the **FPSO Gimboa** carried out operations on behalf of Sonangol P&P under a contract, 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 June 2017, the Saipem offshore drilling fleet consisted of fourteen vessels, divided as follows: seven deepwater 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 6, 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), four standard jack-ups for activities at depths up to 300 feet (Perro Negro 2, Perro Negro 3, Perro Negro 4 and Perro Negro 5) and one barge tender rig (TAD). All units are the property of Saipem. Saipem's offshore drilling fleet operated offshore 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 with oil prices peaking in 2014 affected the first half of 2017. The oil price, which stood between $50 and $55 a barrel for most of the six-month period, dropped below $50 a barrel in June.
The general weakness in the price negatively affected the entire segment, and in particular the medium-term outlook, with a shift in the forecast of recovery for the years after 2018.
The time of market trouble reflected in investments made by Oil Companies in the acquisition of drilling services: the first half of 2017 was in line with the previous six months of 2016 when the negative peak was recorded since the beginning of the crisis.
Use trends have continued to weaken, averaging below 70%; only the most technically modern units have managed to return higher use levels of the fleet, which, however, are only slightly higher than the general market average. 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 more than 100 facilities have been withdrawn from the market since the beginning of the crisis, leading to a 15% drop in drilling rigs. The dismantling activity particularly affected floaters which reported a drop in supply of about 25%.
Even the trends in the rates for contracts assigned in the period has continued to be conditioned by a general weakness.
Ultra deep water has once again been established at $200 to $250 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 period there have been cases of drilling contractors who, in order to keep the rigs running, have accepted payments that are so greatly reduced that they only cover operating costs.
Due to the significant number of orders awarded in previous years during a positive market phase, new offshore drilling rig construction levels remained healthy, with 145 new rigs under construction (100 jack-ups, 15 semi-submersibles and 30 drillships), 126 of which do not yet have a contract for their use. 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 retirement that has affected a part of the existing fleet, represent structural changes in the Offshore Drilling that will have significant effects in the medium to long term.

New contracts

The most significant contracts awarded to the Group during the first half of 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.

Capital expenditure

Investments made during the first half of 2017 concerned class reinstatement and work to ensure the compliance of vessels with international regulations and client requirements. The rigs subject to maintenance work we the jack-up Perro Negro 4, the tender barge Saipem TAD and the semi-submersible drilling rig Scarabeo 9.

Work performed

In the first half of 2017, Saipem's offshore units drilled 23 wells (of which 15 workovers), totalling 36,500 metres.
The fleet was used in the following way:
- deepwater vessels: the drillship **Saipem 12000** continued the standby period in Namibia which began following the decision in October 2015 by Total, the previous client, to discontinue works then being carried out in Angola; the period of idleness has been used to optimise the asset; the drillship **Saipem 10000** continued operations in Egypt in the framework of a multi-year contract for Eni; during the month of March the semi-submersible platform **Scarabeo 9** completed operations for class reinstatement works in Las Palmas, Canary Islands; subsequently work began to prepare for activities in the Black Sea for the new contract acquired during the period and mentioned previously; the semi-submersible **Scarabeo 8** continued operating in the Norwegian sector of the Barents Sea for Eni Norge; the semi-submersible platform **Scarabeo 7**, operating in Indonesia for the multi-annual contract with Eni Muara Bakau, it was placed in paid standby following the client's decision to suspend operating activities due to adverse market conditions; the semi-submersible platform **Scarabeo 6** is currently in Egypt where it was cold stacked during the previous year; the semi-submersible platform **Scarabeo 5** operated in Norway for the contract with Statoil, at the end of June following the non renewal of the lease, the vessel was completely written-down;
- high specifications jack-ups: 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. The **Perro Negro 7** continued offshore operations for Saudi Aramco in Saudi Arabia;
- standard jack-ups: the **Perro Negro 2** and the **Perro Negro 3** 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 on behalf of Saudi Aramco.
  The **Perro Negro 4** continued operations in the Red Sea for Petrobel and completed class maintenance work;
- other assets: 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.

Utilisation of vessels

Vessel utilisation in the first half of 2017 was as follows:

Vessel	(No. of days)	First half 2017 under contract	First half 2017 idle
Semi-submersible platform Scarabeo 5		178	3 (1)
Semi-submersible platform Scarabeo 6		-	181 (2)
Semi-submersible platform Scarabeo 7		181	-
Semi-submersible platform Scarabeo 8		181	-
Semi-submersible platform Scarabeo 9		91	90 (3)
Drillship Saipem 10000		181	-
Drillship Saipem 12000		181	-
Jack-up Perro Negro 2		12	169 (2)
Jack-up Perro Negro 3		-	181 (2)
Jack-up Perro Negro 4		34	147 (1) (3)
Jack-up Perro Negro 5		181	-
Jack-up Perro Negro 7		181	-
Jack-up Perro Negro 8		102	79 (2)
Tender Assisted Drilling Barge		154	27 (3)

(1) The vessel was not under contract.
(2) The vessel underwent maintenance works to address technical problems.
(3) The vessel underwent class reinstatement works and/or preparation works for a new contract.

ONSHORE DRILLING

General overview

At June 2017, Saipem's onshore drilling rig fleet was composed of 104 units (including 5 installed on board offshore structures in Peru which are now part of the Onshore Drilling division), of which 101 are owned by Saipem 3 are owned by third parties and managed 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 and Africa (Congo and Morocco).

Market conditions

During the first half of 2017, the total volume of investments made by Oil Company in the markets Saipem operates in was significantly in line with the previous six months, a year marked by a significant drop in exploration and production spending compared to previous years. The negative economic situation was shown by the weakness of oil prices, falling again below $50 a barrel since June, following an initial recovery in the first months of the year, corresponding with production cuts announced by OPEC and non-OPEC countries.
Thanks to the region's specific characteristics, the United States is among the few areas that have begun to record a recovery in investments, concentrated in the shale segment. The forecast for use of these rigs is almost 1,000 units for 2017, still far behind the 2,000 active rigs in 2014 before the crisis, but indicative of a possible reversal of the trend in this geographical area.
Latin America, which in terms of investment in exploration and production is characterised by being greatly influenced by oil prices, has been confirmed among the markets most affected by the crisis with a level of spending aligned with the previous year (when there was a drop of more than 40% compared to 2015). Also in other regions where Saipem operates, spending levels recorded in the first half of the year were aligned with the previous year, which had been declining compared to 2015 but lower than in the same period in South America. 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 under previously acquired multi-year contracts. Improvement and integration interventions were also carried out for maintaining the operating efficiency of the fleet and meeting the specific requirements of client companies.

Work performed

In the first half of 2017, Saipem's offshore units drilled 76 wells (of which 6 workovers), totalling 319,039 metres.
In Latin America, Saipem operated in a variety of countries: in **Peru** work was carried out for various clients, (including Cepsa, CNPC, Pacific Rubiales, Repsol and GMP) and Saipem was present in the country with 18 rigs (16 of its own and two provided by the client) and five units installed on offshore platforms.
During the first part of the year the fleet in the country was reduced due to the sale of on rig due to the lack of prospects for use in the short term. In **Bolivia** a total of three 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 2017. In **Chile** work was carried out for YPF using one rig. In **Argentina** operations began for two rigs being used for Total and Pan American Energy. In **Colombia** Saipem was present with 3 rigs, one of which carried out operations for Canacol. In **Ecuador** four units were deployed and Saipem operated on behalf of Agip Oil. In **Venezuela** the 26 rigs in the country remained inactive.
In **Saudi Arabia** Saipem deployed twenty-eight rigs which carried out operations for the client, Saudi Aramco under previously acquired multi-year contracts.
In **Kuwait** during the month of January operations began for the first of two units Saipem is committed to providing KOC as per existing contracts. Furthermore, preparations continued on the second rig (from the Saipem fleet deployed in Kazakhstan) for the start of operations in the second half of the year.
In **Kazakhstan** Saipem was present with two rigs from a partner and four of its own. During the first half of the year preparations began on a rig that will begin during the second half of the year for the client Zhaikmunay.
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 on behalf of Eni; the works, initially expected to commence in the first half of 2016, were postponed to 2017 by the client; the period is, however, remunerated at the stand-by rate.

Utilisation of rigs

Operational activity resulted an average use of facilities at 57.2% (70.4% in the corresponding period of 2016); owned properties at June 30, 2017 amounted to 101 (during the first six months of 2017 five offshore onshore rigs were reclassified from the Offshore Drilling division to the Onshore Drilling division), located in the following countries: 28 in Saudi Arabia, 26 in Venezuela, 23 in Peru, 4 in Bolivia, 4 in Colombia, 4 in Kazakhstan, 4 in Ecuador, 2 in Kuwait, 2 in Argentina, 1 in Chile, 1 in Congo, 1 in Italy and 1 in Morocco.
In addition 1 unit owned by third parties was used in the Congo.

FINANCIAL AND ECONOMIC RESULTS

As previously stated, revenues and associated profit levels are not consistent over time, as they are influenced not only by market performance but also by climatic conditions and individual project schedules in Engineering & Construction, as well as to deadlines and renegotiation of contracts in Drilling.

In the oil price scenario described above, the prospects for the oil services sector continue to be bleak. The clients' focus on reducing costs translates into a hardening of their negotiation strategies, a push for greater efficiency on the projects assigned, delays in the awarding of new projects and, in some cases, the cancellation of projects already awarded.

Results of operations

Saipem Group - Income statement

Year		First half		
2016	(€ million)	2016	2017	% Ch.
9,976	**Net sales from operations**	**5,275**	**4,590**	**(13.0)**
9	Other revenues and income	2	2	
(7,294)	Purchases, services and other costs	(3,746)	(3,265)	
(1,782)	Payroll and related costs	(949)	(854)	
909	**Gross operating profit (EBITDA)**	**582**	**473**	**(18.7)**
(2,408)	Depreciation, amortisation and impairment	(345)	(349)	
(1,499)	**Operating result (EBIT)**	**237**	**124**	**(47.7)**
(154)	Net finance expense	(70)	(115)	
18	Net income from investments	9	2	
(1,635)	**Result before income taxes**	**176**	**11**	**(93.8)**
(445)	Income taxes	(120)	(110)	
(2,080)	**Result before non-controlling interests**	**56**	**(99)**	..
(7)	Net result attributable to non-controlling interests	(3)	(11)	
(2,087)	**Net profit (loss) for the period**	**53**	**(110)**	..

Net sales from operations in the first half of 2017 amounted to €4,590 million.
Gross operating result (EBITDA) amounted to €473 million. Depreciation and amortisation of tangible and intangible assets amounted to €349 million.
The **operating result (EBIT)** for the first half of 2017 amounted to €124 million. The main discrepancies are detailed below in the analysis by segment of operations.
Net finance expenses amounted to €115 million, an increase of €45 million due to depreciation of the dollar.
Net income from investments amounted to €2 million, due to the lower contribution of companies accounted for using the equity method.
The **result before income taxes** amounted to a loss of €99 million. Income taxes were €11 million.
The **net result** was €110 million.

Year		First half	
2016	(€ million)	2016	2017
(1,499)	**Operating result (EBIT)**	**237**	**124**
2,081	Impairment/write-down and reorganisation expenses	87	136
582	**Adjusted operating result (EBIT)**	**324**	**260**

Year 2016	(€ million)	First half 2016	First half 2017
(2,087)	**Net profit (loss) for the period**	**53**	**(110)**
2,313	Impairment/write-down and reorganisation expenses	87	202
226	**Adjusted net profit (loss) for the period**	**140**	**92**

The loss for the year amounted to €110 million (operating profit of €53 million in the first half of 2016), compared with the adjusted net income reduced by the following special items:
- impairment of the semi-submersible platform Scarabeo 5 and its inventory for €44 million due to changes in prospects for use;
- write-downs arising from the impairment test of €53 million, due to the increase from 7.2% to 7.8% of the discount rate used;
- restructuring charges for €26 million (net of taxes);
- charges arising from the settlement of tax disputes for €79 million.

Adjusted EBIT reconciliation - EBIT

(€ million)	Offshore E&C	Onshore E&C	Floaters	Offshore Drilling	Onshore Drilling	Total
Adjusted EBIT	**188**	**34**	**(45)**	**96**	**(13)**	**260**
Impairment/asset write-down of assets	-	-	22	63	-	85
Write-down of inventories	-	-	-	12	-	12 [(1)]
Reorganisation expenses	16	11	9	1	2	39 [(1)]
Total impairment	(16)	(11)	(31)	(76)	(2)	(136)
EBIT	**172**	**23**	**(76)**	**20**	**(15)**	**124**

(1) Total €51 million: adjusted EBITDA reconciliation equal to €524 million compared to EBITDA equal to €473 million.

Saipem Group - Adjusted income statement

Year 2016	(€ million)	First half 2016	First half 2017	% Ch.
9,976	**Net sales from operations**	**5,275**	**4,590**	**(13.0)**
9	Other income and revenues	2	2	
(6,961)	Purchases, services and other costs	(3,659)	(3,253)	
(1,758)	Payroll and related costs	(949)	(815)	
1,266	**Adjusted gross operating profit (EBITDA)**	**669**	**524**	**(21.7)**
(684)	Depreciation and amortisation	(345)	(264)	
582	**Adjusted operating result (EBIT)**	**324**	**260**	**(19.8)**
(154)	Net finance expense	(70)	(115)	
18	Net income from investments	9	2	
446	**Adjusted result before income taxes**	**263**	**147**	**(44.1)**
(213)	Income taxes	(120)	(44)	
233	**Adjusted result before non-controlling interests**	**143**	**103**	**(28.0)**
(7)	Net result attributable to non-controlling interests	(3)	(11)	
226	**Adjusted net profit (loss) for the period**	**140**	**92**	**(34.3)**

Adjusted operating result and costs by function

Year 2016	(€ million)	First half 2016	First half 2017	% Ch.
9,976	**Net sales from operations**	**5,275**	**4,590**	**(13.0)**
(8,741)	Production costs	(4,620)	(4,060)	
(316)	Idle costs	(153)	(99)	
(104)	Selling expenses	(58)	(60)	
(19)	Research and development costs	(7)	(11)	
(24)	Other operating income (expenses)	(18)	(12)	
(190)	General and administrative expenses	(95)	(88)	
582	**Adjusted operating result (EBIT)**	**324**	**260**	**(19.8)**

In the first half of 2017, the Saipem Group reported **net sales from operations** of €4,590 million, a decrease of €685 million compared to the same period of the previous year 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 €4,060 million, representing a decrease of €560 million over the first half of 2016.
Idle costs decreased by €54 million; the decrease is due to increased efficiency by the Offshore Engineering & Construction division and the depreciation and amortisation following the write-downs carried out at December 31, 2016 in Offshore Drilling.
Selling expenses of €60 million showed a €2 million increase compared to the previous year.
Research costs, including administrative costs, amounted to €11 million, an increase of €4 million compared to the first half of 2016, consistent with the increase in budget available for the business.
General expenses of €88 million show a decrease of €7 million due to the cost reduction programme.
The results of main business activities are analysed below, as described previously with the result of the Floaters business line separated from that of the Onshore Engineering & Construction division:

Offshore Engineering & Construction

Year 2016	Year 2016 restated	(€ million)	First half 2016	First half 2016 restated	First half 2017
5,686	4,652	Net sales from operations	3,071	2,534	2,020
(5,057)	(3,935)	Cost of sales	(2,742)	(2,216)	(1,744)
629	717	Adjusted gross operating profit (EBITDA)	329	318	276
(250)	(197)	Depreciation and amortisation	(125)	(101)	(88)
379	520	Adjusted operating result (EBIT)	204	217	188
(387)	(308)	Impairment/write-down and reorganisation expenses	-	-	(16)
(8)	212	Operating result (EBIT)	204	217	172

Revenues for the first half of 2017 amounted to €2,020 million, down 20.3% 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 €1,744 million decreased by €472 mililon compared with the first half of 2016, in line with the lower volumes.
Adjusted EBITDA for the first half of 2017 amounted to €276 million, equal to 13.7% of revenues, versus €318 million, equal to 12.5% of revenues, in the first half of 2016.
The percentage increase is attributable to good operating efficiency and fewer idle vessels.
Depreciation and amortisation dropped by €13 million compared with the same period of 2016.
The EBIT for the first half of 2017 amounts to €172 million, the result includes restructuring charges which amount to €16 million.

Onshore Engineering & Construction

Year 2016	Year 2016 restated (*)	(€ million)	First half 2016	First half 2016 restated (*)	First half 2017
2,844	2,855	Net sales from operations	1,427	1,433	1,662
(2,803)	(2,812)	Cost of sales	(1,407)	(1,412)	(1,613)
41	43	Adjusted gross operating profit (EBITDA)	20	21	49
(36)	(36)	Depreciation and amortisation	(19)	(19)	(15)
5	7	Adjusted operating result (EBIT)	1	2	34
(147)	(147)	Impairment/write-down and reorganisation expenses	-	-	(11)
(142)	(140)	Operating result (EBIT)	1	2	23

(*) The results of the HVS division are not shown separately because the division is still in the start-up phase.

Revenues for the first half of 2017 amounted to €1,662 million, representing a 16% increase compared to the same period of 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 €1,613 million also increased compared with the first half of 2016, in line with the higher volumes.

Adjusted EBIT for the first half of 2017 amounted to €49 million, equal to 2.9% of revenues, versus €21 million, equal to 1.5% of revenues, in the first half of 2016.
Depreciation and amortisation of €15 million, a decrease compared to the figure for 2016.
The EBIT for the first half of 2017 amounts to €23 million, while the net result is €11 million.

Floaters

Year 2016	(€ million)	First half 2016	First half 2017
1,023	Net sales from operations	531	338
(1,113)	Cost of sales	(521)	(350)
(90)	Adjusted gross operating profit (EBITDA)	10	(12)
(53)	Depreciation and amortisation	(24)	(33)
(143)	Adjusted operating result (EBIT)	(14)	(45)
(79)	Impairment/write-down and reorganisation expenses	-	(31)
(222)	Operating result (EBIT)	(14)	(76)

Revenues for the first half of 2017 amounted to €338 million, representing a 36.3% decrease compared to the same period of 2016, due mainly to lower volumes recorded in West Africa.
The cost of sales of €350 million decreased compared with the first half of 2016, in line with the lower volumes.
The adjusted EBITDA for the first half of 2017 amounted to -€12 million, compared to €10 million in the first half of 2016.

The deterioration is mainly due to a project in West Africa, which has experienced an increase in construction costs resulting from an additional acceleration programme.
Depreciation and amortisation of €33 million increased compared to the figure for 2016.
The EBIT during the first half of 2017 amounted to a loss of €76 million, reduced by write-downs following impairment tests for €22 million and restructuring charges for €9 million.

Offshore Drilling

Year 2016	(€ million)	First half 2016	First half 2017
903	Net sales from operations	487	323
(449)	Cost of sales	(250)	(166)
454	Adjusted gross operating profit (EBITDA)	237	157
(220)	Depreciation and amortisation	(111)	(61)
234	Adjusted operating result (EBIT)	126	96
(1,202)	Impairment/write-down and reorganisation expenses	-	(76)
(968)	Operating result (EBIT)	126	20

Revenues for the first half of 2017 amounted to €323 million, down 33.7% 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 lost contributions from the drilling jack-ups Perro Negro 2 and Perro Negro 3, currently without contracts and entirely written-down at December 31, 2016. The decrease was slightly offset by increased revenues from the full-scale operations of the drilling jack-up Perro Negro 5, which had undergone upgrading works during the first quarter of 2016.
The cost of sales, which amounted to €166 million, was down €84 million, in line with the decrease in volumes compared to the same period of 2016.
The adjusted EBITDA for the first half of 2017 amounted to €157 million, compared to €237 million in the first half of 2016, while the margin on revenues was 48.6%, in line with the corresponding period of 2016.
Depreciation and amortisation decreased by €50 million compared to the same period in 2016 as a result of write-downs at December 31, 2016.
The EBIT in the first half of 2017 amounted to €20 million, which includes the impairment of the semi-submersible platform Scarabeo 5 and its inventory for €44 million due to changes in prospects for use, to the write-downs of other vessels following impairments tests for €31 million and restructuring charges for €1 million.

Onshore Drilling

Year 2016	(€ million)	First half 2016	First half 2017
543	Net sales from operations	290	247
(401)	Cost of sales	(207)	(193)
142	Adjusted gross operating profit (EBITDA)	83	54
(178)	Depreciation and amortisation	(90)	(67)
(36)	Adjusted operating result (EBIT)	(7)	(13)
(345)	Impairment/write-down and reorganisation expenses	(87)	(2)
(381)	Operating result (EBIT)	(94)	(15)

Revenues for the first half of 2017 amounted to €247 million, representing a 14.8% decrease compared to the same period of 2016, attributable mainly to decreased activity in South America.
The cost of sales decreased by €14 million compared to the first half of 2016.
The adjusted EBITDA of the first half of 2017 amounted to €54 million, equal to 21.9% of revenue compared to the €83 million of the corresponding period of 2016, equal to 28.6% of revenue due to reduced revenues from vessels in South America, as well as start-up costs for new projects in Kuwait and Argentina.
Depreciation and amortisation of €67 million decreased by €23 million compared to the same period in 2016, attributable to the full operability in the current half year of new rigs in Saudi Arabia.
The EBIT for the first half of 2017 is negative for €15 million, and includes restructuring charges for €2 million.

Financial position

Saipem Group - Reclassified consolidated balance sheet [1]

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

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

June 30, 2016		(€ million)	Dec. 31, 2016		June 30, 2017	
	7,016	Net tangible assets		5,192		4,902
	759	Net intangible assets		755		753
	7,775			**5,947**		**5,655**
3,052		*- Offshore Engineering & Construction*	*2,745*		*2,657*	
519		*- Onshore Engineering & Construction*	*444*		*425*	
265		*- Floaters*	*179*		*134*	
2,955		*- Offshore Drilling*	*1,754*		*1,664*	
984		*- Onshore Drilling*	*825*		*775*	
	141	Investments		147		148
	7,916	**Non-current assets**		**6,094**		**5,803**
	1,332	**Net current assets**		**447**		**752**
	(208)	Provisions for employee benefits		(206)		(206)
	-	**Assets (liabilities) available for sale**		**-**		**-**
	9,040	**Net capital employed**		**6,335**		**6,349**
	7,052	Shareholders' equity		4,866		4,817
	48	Non-controlling interests		19		28
	1,940	Net debt		1,450		1,504
	9,040	**Funding**		**6,335**		**6,349**
	0.27	**Leverage (net borrowings/shareholders' equity including non-controlling interests)**		**0.30**		**0.31**
	10,109,774,396	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 flows statement to statutory schemes' on page 68.

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 June 30, 2017 stood at €5,803 million, a decrease of €291 million compared to December 31, 2016.
The change derives from capital expenditure of €156 million, from positive changes in investments accounted for using the equity method of €2 million, depreciation, amortisation and impairment of €349 million, and the negative net effect of €100 million deriving mainly from the translation of financial statements in foreign currencies and other changes.
Net current assets increased by €305 million, going from €447 million at December 31, 2016 to €752 million at June 30, 2017.
The **provision for employee benefits** amounted to €206 million, in line with the figure at December 31, 2016.
As a result of the above, **net capital employed** increased by €14 million, reaching €6,349 million at June 30, 2017, compared with €6,335 million at December 31, 2016.
Shareholders' equity, including minority interests, amounted to €4,845 million at June 30, 2017, a decrease compared to €40 million at December 31, 2016. This decrease reflected the negative effect of the net result for the period of €99 million, compensated by the positive effect of changes in the fair value of exchange rate and commodity hedging instruments of €167 million and the negative effect on equity of translation into euro of financial statements expressed in foreign currencies and other variations amounting to €108 million.
Net borrowings at June 30, 2017, stood at €1,504 million, compared to €1,450 million at December 31, 2016.

Analysis of net borrowings

June 30, 2016	(€ million)	Dec. 31, 2016	June 30, 2017
(1)	Financing receivables due after one year	-	-
3,426	Payables to banks due after one year	2,193	1,495
13	Bonds and payables to other financial institutions due after one year	1,001	1,495
3,438	**Net medium/long-term borrowings**	**3,194**	**2,990**
(1,653)	Accounts c/o bank, post and Group finance companies	(1,890)	(1,809)
(26)	Available-for-sale securities	(55)	(55)
(3)	Cash and cash on hand	(2)	(2)
(3)	Financing receivables due within one year	(3)	(1)
113	Payables to banks due within one year	179	335
74	Bonds and payables to other financial institutions due within one year	27	46
(1,498)	**Net short-term debt (liquid funds)**	**(1,744)**	**(1,486)**
1,940	**Net borrowings (liquid funds)**	**1,450**	**1,504**

The fair value of derivative assets (liabilities) is detailed in the Note 17 'Derivative financial instruments'.

A breakdown by currency of gross debt, amounting to €3,371 million, is provided in Note 17 'Short-term debt' and Note 22 'Long-term debt and current portion of long-term debt'.

Statement of comprehensive income

(€ million)	First half 2016	First half 2017
Net profit (loss) for the period	**56**	**(99)**
Other comprehensive income:		
- change in the fair value of cash flow hedges	148	218
- exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(22)	(108)
- changes in the fair value of investments held as fixed assets	-	-
- income tax relating to other items of comprehensive income	(38)	(51)
Other items of comprehensive income	**88**	**(59)**
Total comprehensive income (loss) for the period	**144**	**(40)**
Attributable to:		
- Saipem Group	139	(49)
- non-controlling interests	5	9

Shareholders' equity including non-controlling interests

(€ million)	
Shareholders' equity including non-controlling interest at December 31, 2016	**4,885**
Total comprehensive income for the period	(99)
Dividend distribution	-
Purchase/sale of treasury shares net of fair value in the incentive plans	2
Share capital increase net of charges	(2)
Other changes	59
Total changes	**(40)**
Shareholders' equity including non-controlling interest at June 30, 2017	**4,845**
Attributable to:	
- Saipem Group	4,817
- non-controlling interests	28

Reclassified cash flow statement [1]

Saipem's reclassified cash flows statement derives from the statutory cash flow statement. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory cash flow statement) and in net borrowings (deriving from the reclassified cash flows statement) that occurred between the beginning and the end of the period.
The measure enabling such a link is represented by the free cash flow, which is the cash in excess of capital expenditure requirements. Starting from free cash flow it is possible to determine either: (i) changes in cash and cash equivalents for the period by adding/deducting cash flows relating to financing debts/receivables (issuance/repayment of debt and receivables related to financing activities), shareholders' equity (dividends paid, net repurchase of treasury shares, capital issuance) and the effect of changes in consolidation and of exchange differences, or (ii) changes in net borrowings for the year by adding/deducting cash flows relating to shareholders' equity and the effect of changes in consolidation and of exchange rate differences.

Year		First half	
2016	(€ million)	2016	2017
(2,087)	Net profit for the period	53	(110)
7	Non-controlling interests	3	11
	Adjustments to reconcile cash generated from operating profit before changes in working capital:		
2,208	Depreciation, amortisation and other non-monetary items	309	471
5	Net (gains) losses on disposal and write-off of assets	2	1
516	Dividends, interests and income taxes	160	144
649	**Net cash generated from operating result before changes in working capital**	**527**	**517**
647	Changes in working capital related to operations	(202)	(199)
(318)	Dividends received, income taxes paid, interest paid and received	(138)	(255)
978	**Net cash provided by operating activities**	**187**	**63**
(296)	Capital expenditure	(97)	(147)
-	Investments and purchase of consolidated subsidiaries and businesses	-	(9)
17	Disposals	4	7
(1)	Other cash flow related to capital expenditures, investments and disposals	-	-
698	**Free cash flow**	**94**	**(86)**
1	Borrowings (repayment) of debt related to financing activities	27	2
(3,253)	Changes in short and long-term financial debt	(2,953)	38
(26)	Sale (buy-back) of treasury shares	-	-
3,399	Cash flow from capital and reserves	-	(2)
-	Share capital increase net of charges	3,435	-
7	Effect of changes in consolidation and exchange differences	(13)	(33)
826	**NET CASH FLOW FOR THE PERIOD**	**590**	**(81)**
698	**Free cash flow**	**94**	**(86)**
(26)	Sale (buy-back) of treasury shares	-	-
3,399	Cash flow from capital and reserves	3,435	(2)
(131)	Exchange differences on net borrowings and other changes	(79)	34
3,940	**CHANGE IN NET BORROWINGS**	**3,450**	**(54)**

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 68.

Net cash provided by operating activities, positive for €63 million, together with divestment and disposals of non-strategic assets of €7 million, net of the negative cash flow from capital expenditures and other investment related changes of €156 million, generated a negative cash flow of €86 million.
The **cash flow from capital and reserves** is negative for €2 million, and is related to capitalisation of financial charges.
Exchange differences on net borrowings produced a net negative effect of €33 million. As a result, **net borrowings** decreased by €54 million.
Net cash generated from operating result before changes in working capital of €517 million related to:
- the negative result for the year of €99 million;
- depreciation, amortisation and impairment of tangible and intangible assets of €349

million, partly offset by the effect of the valuation of investments accounted for using the equity method of €2 million, the change in the provision for employee benefits of €3 million and exchange rate differences and other changes for €121 million;
- net gains on the disposal of assets of €1 million;
- net finance expense of €34 million and income taxes of €110 million.

The negative change in working capital related to operations of €199 million was due to financial flows of projects under execution.
Dividends received, income taxes paid, interest paid and received during the first half of 2017 were negative for €255 million and were mainly related to income taxes paid net of tax credits. Capital expenditure during the year amounted to €147 million.
The breakdown by division is as follows: Offshore Drilling (€63 million), Offshore Engineering & Construction (€41 million), Onshore Drilling (€41 million) and Onshore Engineering & Construction (€2 million).
Additional information concerning capital expenditure made during 2017 can be found in the 'Operating Review' section.
Cash flow generated by disposals, equal to €7 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 period 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 27.5%, as per the applicable tax legislation.

Return On Average Operating Capital

To calculate the Return On Average Operating Capital, the average capital employed is netted of investments in progress that did not contribute to net profit for the reporting period.
No significant investments in the two periods under review.

		Dec. 31, 2016	June 30, 2016	June 30, 2017
Net profit (loss) for the period	(€ million)	(2,080)	173	(2,235)
Exclusion of finance costs on borrowings (net of tax effect)	(€ million)	112	155	151
Unlevered net profit (loss) for the period	(€ million)	(1,968)	328	(2,084)
Capital employed, net:	(€ million)			
- at the beginning of the period		8,909	8,877	9,040
- at the end of the period		6,335	9,040	6,402
Average capital employed, net	(€ million)	7,622	8,959	7,721
ROACE	(%)	**(25.82)**	**3.66**	**(26.99)**
Return On Average Operating Capital	(%)	**(25.82)**	**3.66**	**(26.99)**

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.

	June 30, 2016	June 30, 2017
Leverage	0.27	0.31

SUSTAINABILITY

Saipem is committed to managing operations in a sustainable and responsible way, promoting dialogue and consolidating relationships with its stakeholders.
The Company's presence in local communities enables it to build shared values that contribute – particularly through the deployment of a strategy of local content – to the socio-economic development of the areas in which we operate.
In this regard, Saipem joins the Global Compact, a United Nations initiative to promote respect for ten fundamental principles in the field of human rights and labour, environmental protection and the fight against corruption, in order to contribute to achieving the Sustainable Development Goal by 2030.

Stakeholder engagement

The identification and involvement of all bearers of legitimate interests are fundamental features of the Company's sustainability strategy. Dialogue and sharing of objectives with all stakeholders are the tools through which mutual values can be engendered. This general approach was defined to ensure open and transparent relations with all interested parties, aimed at promoting positive and mutually advantageous results, allowing Saipem to be a solid presence on the market, and to effectively carry out activities across its entire theatre of operations.
During the first half of 2017, Saipem held talks with some important financial stakeholders, comparing the strategy and sustainability approach and the performance achieved in the previous year. This dialogue with stakeholders allows us to focus on the issues that are of interest and on what is expected of our Company in order to better orient the strategies, but also the methods of communicating and reporting data.

After joining the United Nations Global Compact in 2016 and the defining an internal action plan to ensure alignment with the principles and the continuous improvement in performance, activities continued during the first half of 2017 on the theme of respect for human rights and workers in the Saipem supply chain, including specific audits of vendors in high-risk countries where the protection of rights is concerned.

Communicating with stakeholders

Saipem's Sustainability reporting system consists of numerous complementary documents covering the main stakeholders' disclosure requirements.
In the first half of 2017, the Company made available on its internet site the document 'Saipem Sustainability 2016', which reports the main results for the year, objectives of future years, and Company strategies and approaches concerning specific themes; and, the 'Sustainability Consolidated Report 2016', which reports corporate results in terms of indicators and trend analysis.
Additionally 'Saipem Sustainability-2016 in Brief' was published, a document summarising in just a few pages the content and primary issues discussed in the Sustainability Report ('Saipem Sustainability 2016').

RESEARCH AND DEVELOPMENT

Due to the change of the global scenario of energy sources and the increased costs for their exploitation, the Oil & Gas industry must innovate to tackle the challenges of the near future. Saipem can boast a long tradition of innovation, often led by operating in challenging situations. However, to address the current market scenario, a greater willingness to change and a new strategy of innovation are now required, in terms of both rate and intensity.

In this context, Saipem has recently structured its own technological innovation activities in accordance with three main lines:
- technological development applied to instruments and technologies for the execution of commercial projects or high-tech integrated systems;
- transformative innovation to change processes and pursue new proposals for value, 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. Over the period some innovative technologies were identified for both offshore and onshore activities, and the relative agreements with the technology owners have been, or are being, defined.

Technological development is the foundation of the Company's competitiveness and the success of many of its projects.

At Saipem, technological innovation is strongly oriented to the implementation of projects and services; as a consequence of the proximity of the majority of Saipem's innovation activities to the business, two types of technological innovation 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 of innovation.

Relating to the new innovation strategy, in the first half of 2017 total investments in this area will be approximately doubled compared to the average amount of the past few years. The main drivers are the reduction of costs and/or the increase in productivity, improved safety and/or operations and protection of the environment.

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 pipelines and equipment for connecting to the surface.
In this field, Saipem signed a joint development agreement with Siemens in March, 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 PRocess and INjection Gear for Seawater) subsea water treatment technology, Saipem is now carrying out the industrialisation activities for this technology.
The development project completed in 2016 with some of the leading Oil & Gas companies concerning its Spoolsep technology for the gravimetric separation of the oil from the

water produced, is under development in a test centre operating in France.

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, new 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 very active in the development of solutions which include new disruptive thermoplastic composite products for pipelines (jumpers, spools, flowlines and risers), 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 the long pipeline installation business: new solutions to further optimise installation techniques and reduce costs have been prepared very recently. The cutting edge subsea trenching technologies, successfully developed and used on past projects in the Caspian Sea, are continuously supporting the Company's projects, especially in very shallow waters.

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.
The recently launched Heavy Work Class ROV Innovator 2.0® is the result of three years of design and testing and is state-of-the-art in subsea robotics, drawing on the company's experience in the construction of subsea structures.
Two '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 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 called 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 and remote handling technologies.

In the offshore renewable energy sector, the technological efforts have focused mainly on offshore wind farms, which is the sector offering most synergies with Saipem's core business: various solutions are being developed in this sector, particularly concerning floating wind technologies.

The Onshore Drilling and Offshore Drilling divisions focused primarily on the adoption of new drilling techniques and low environmental impact solutions: a drilling vessel was fitted with MPD (Managed Pressure Drilling) technology and is operating in the Mediterranean for a client.
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.

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 also reflected in Saipem's innovative efforts in the monetisation of natural gas, exploiting its solid skills in this field to maximise the efficiency of the whole value chain, in refining, concentrating on the full conversion of the

bottom of the barrel, and an in-depth analysis of carbon dioxide management.
Specifically, a multi-year plan is in progress to keep the proprietary fertiliser production technology 'Snamprogetti™ Urea' at the highest level of competitiveness.

The efforts being made to define innovative solutions for reducing energy consumption in specific processes continue with the successful development, in cooperation with the Polytechnic of Milan, of a new method of regasification of Liquid Natural Gas (LNG) which drastically reduces energy needs.
Activities have begun for the definition of a process package for small scale liquefaction and regasification of natural gas. Small scale 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 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).

As regards the COP-21 Agreement, which has the aim of keeping the average temperature increase 'well below 2 degrees Celsius' by the end of the century, Saipem is creating a portfolio of technologies for both purification of natural gas in fields with a high carbon dioxide content, and for the capture of carbon dioxide from combustion emissions for generation of electricity and industrial processes. In particular, Saipem is able to manage the whole carbon dioxide capture and storage chain (CCS - Carbon Capture Storage) thanks to its solid background in process technologies (mainly the know-how for Urea and the gasification of heavy residues), transportation of fluids via long-distance pipeline, and both offshore and onshore drilling, aiming to be ready for the future use of CCS technologies once the required legislative measures have been implemented worldwide. Moreover all options for the reuse of carbon dioxide will be pursued as a first step for the full industrial exploitation of these technologies.

An extended programme aimed at improving and optimising various aspects of engineering and construction modes of onshore pipelines is currently underway. In this field, the award in the environmental sector received from IPLOCA (International Pipe Line & Offshore Contractors Association) for the Chinipas gas pipeline crossing (Mexico) should be underlined. The Raise Boring trenchless solution adopted enabled overcoming rocky cliffs of heights between 150 and 200 m, improving the safety conditions during the construction and minimising the environmental impact of the pipeline construction activities. Other solutions are also being developed, for example those based on the use of geogrids.

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.

Finally, an increased effort was devoted to significant cross-business themes, such as 'Asset Integrity Management' and 'Oil Spill Response'. In particular, in this area Saipem has developed a more technologically advanced structure in Trieste for sealing a subsea wellhead. The machinery is used to rapidly resolve environmental disasters such as that of the Deepwater Horizon platform in the Gulf of Mexico in 2010. The system, a particularly sophisticated, remote-controlled machine, is able to operate in deep waters and under extreme conditions, such as those of an environmental disaster.

Within the complete framework of technological development activities, Saipem filed 15 new patent applications in the first half of 2017.

In Transformative Innovation, Saipem launched a new initiative to further consolidate its position in a market context characterised by strong competition.
The 'Innovation Factory', a new incubator of ideas and prototyping lab, was conceived internally for increasing Saipem's productivity.
The 'Innovation Factory', a new incubator of ideas and prototyping lab, was conceived internally for increasing Saipem's productivity.
More specifically, the 'Innovation Factory' aims to experiment solutions responding to the challenges in the energy sector, through new technologies (first and foremost of a digital type) and new ways in which Saipem works, not only to increase efficiency but also to identify and pursue new value propositions.
Some of the prototypes designed have already been directly tested in the field with interesting results; for example, the issues tackled concerning the track & trace of assets and materials for the digitalisation of construction activities, new approaches based on virtual and augmented reality for the maintenance and management of proprietary vessels, the application of vision technology to specific activities on the offshore fleet vessels, as well as a digital and data-centric cooperative method for managing the whole project cycle ('xDIM®'). This methodology is implemented via an integrated and

multi-dimensional interface platform that exchanges data and information with a project-based Common Data Environment and matches it in different dimensions, according to the various activities and operations performed by the different departments throughout the whole plant life cycle, including the process, engineering, activity planning, cost control, materials procurement, construction, delivery, operations and maintenance. The designed and prototyped solutions are currently being scaled up.
Moreover, Saipem and NTT DATA have signed a cooperation agreement for the prototyping and implementation of new solutions for Saipem sites and naval 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', held in March, 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

Safety

Concerning the efforts made in the field of safety at work, in the first half of 2017 the recorded TRIFR value (number of incidents recorded for every million hours worked) settled at 0.50, a value which confirms the significant improvement trend recorded also in previous years.

This result is linked to the constant attention paid by the Company to the issue of health and safety, applied to many initiatives launched in the first half of 2017 and in previous years and consolidated increasingly in Saipem's various operating realities.
The following should be mentioned:
- the continuing and renewed implementation of the programme 'Leadership in Health & Safety' (LiHS) which is increasingly widespread and deep-rooted in all Saipem realities, also following a specific initiative to relaunch the programme through dedicated workshops, class training sessions, cascading activities, the dissemination of Leading Behaviours and the delivery of Choose Life workshops. In some projects, shared with end customers, the programme is also extended to some contractors;
- the campaign dedicated to the 'Life Saving Rules' was launched directly by the CEO in September 2015. They are issued by the IOGP (International Association of Oil & Gas Producers) and were taken up by Saipem to disseminate the 'life-saving rules' with greater emphasis and draw attention to the hazardous activities and the individual actions to protect oneself and others. Additional tools are currently being finalised which, once ready, will be incorporated within the LSR material. These include in particular one IT instrument based on 3-D animations with final tests and a tool for supporting the management during visits to operating sites. Within this widespread campaign there is also a specific programme structured to avoid events linked to 'Dropped objects'.
  The programme involves dedicated instruments including specific training, video communication initiatives and posters and the careful identification of responsibilities for the figures involved in operating processes;
- the LHS Foundation pursued the ambitious aim of innovating the method of communicating health and safety, involving the greatest number of people possible throughout Italy. To celebrate the World Day of Health and Safety at Work on April 28, it promoted the second simultaneous safety roadshow. After the 50 cities covered in 2016, this year 300 events were organised in 135 towns, including educational workshops for children, theatre performances, workshops, mass training sessions to promote well-being in the work place and beyond. Such widespread geographical coverage was made possible thanks to the synergy between the ever increasing number of safety ambassadors who, accepting the challenge launched by the LHS Foundation, who are organising events in their cities with the purpose of discussing safety in innovative ways. Professionals, private and public corporations, universities and associations have participated in this event.
  Special attention was given to schools, with proposals specially targeted to children, adolescents and their parents. As part of the 'Italia Loves Sicurezza' initiative, for the second time Saipem provided schools in the Milan and San Donato Milanese area with the 'Growing New Leaders in Safety' project, an education programme on health and safety, offering diversified activities targeted at various age-groups of students. On May 17, in the main hall of the Teatro Elfo Puccini in Milan, 'Il Virus che ti salva la vita' ('The Virus that saves your life') was performed, with the participation of over 350 spectators: this was the event that Saipem and the LHS Foundation chose to celebrate the World Day of Health and Safety at Work, contributing concretely to the 'Italia Loves Sicurezza' roadshow;
- in the first six months of the year, the cooperation between Saipem, the LHS Foundation and LILT (Italian league for the fight against cancer) as joint partner, was reinforced through the participation of 57 teams and over 200 runners in the Milan City Marathon on April 2;
- the dissemination was through various applications developed for HSE and particularly of a software for running HSE audits, which has also now been adopted by other group companies for ever greater integration and consolidation of experiences;
- in 2017, the ambitious programme to extend the Saipem SpA ISO 14001 and OHSAS 18001 certification to all its subsidiaries was completed. For the current year, a challenging HSE Audit plan by a renowned international certification body has started to complete the renewal of the

ISO 14001 (new version 2015) and OHSAS 18001 certificates, and extend them to the whole Saipem Group.

Other noteworthy initiatives are:
- the application of the 'Asset Integrity Management System' to prevent significant incidents involving the systematic management of critical elements and the identification of specific site and group Key Performance Indicators for accurate monitoring;
- the creation of 'task familiarisation cards' to manage the development of staff assigned to specific roles or the use of critical equipment. For the time being, this initiative has been launched both in operational manufacturing sites and in the Offshore Engineering & Construction division.

Environment

Saipem also pursues continuous improvement in environmental performances, adopting strategies to reduce and monitoring of environmental impact and to conserve and make the most of natural resources.
Achieving these objectives requires the dissemination of environmental awareness at all Saipem projects, sites and offices.
During the first half of 2017 Saipem has confirmed its objective of strengthening its commitment to specific aspects, including the following:
- energy efficiency: reduce energy consumption and maximise efficiency to limit Greenhouse Gas emissions (GHGs) and help to fight climate change. In 2017, Saipem continued to monitor the effectiveness of the measures adopted to further reduce energy consumption at the sites involved. An important contribution also comes from the initiative to optimise the routes of offshore drilling equipment and vessels through the use of specific software applications;
- the minimisation of environmental impacts through the 'accommodation camp' project, the study of which began in 2016.
  A Guideline was produced, which will be used as a reference for reduced environmental impact design, also containing an analysis of the economic benefits. In 2017, workshops will be organised to illustrate the environmental and economic advantages deriving from the application of these Guidelines;
- environmental awareness raising: relating to the Environmental Communication initiatives, we can report that, during the month of June on the annual 'World Environment Day' (WED), a series of events to motivate and raise the awareness of personnel concerning environmental sustainability and the correct management of environmental issues have been organised. In particular, this year the United Nations Environment Programme (UNEP), promoter of the WED, launched the theme 'Connect people to Nature', which Saipem has subscribed to;
- due to changes in the reference statutory framework (in particular, Law No. 68 of May 22, 2015, 'Provisions Governing Crimes against the Environment'), Saipem has updated Form 231, which entails a re-assessment for identifying sensitive activities and specific control standards;
- concerning the offshore vessels (drilling equipment and vessels) work is being done to map the critical elements which may generate spills of hydrocarbons and other hazardous substances, based on a Risk Assessment focusing on spill potential. This activity is under completion.

As has happened in the past, all the initiatives mentioned above, both health and safety and environment, are part of the continuous improvement process that derives from careful analysis of accidents, HSE audit results and HSE reviews by company management.

HUMAN RESOURCES

Organisational and Quality

During the first half of 2017, the process of redefining the industrial and organisational structure of Saipem SpA, which was launched in 2016 under the 'Fit For the Future 2.0' programme, was completed in order to cope with the structural market evolution and to favour, through a divisional model, the strategic repositioning of Saipem in the reference sector.

The organisational structure taken on by Saipem as of May 1 provides for:
- a operational Corporate structure with group-level leadership and control over professional processes, and that is responsible for managing critical or relevant issues and aspects of corporate governance;
- 5 divisions (Onshore Engineering & Construction, Offshore Engineering & Construction, Onshore Drilling, Offshore Drilling, High Value Services) each with full responsibility over global business results globally and with all the decision-making, management and operational powers that are necessary to the pursuit of the targets set.

In addition, as a result of the allocation to individual divisions of staff and support activities for the previously centralised business, structures aimed at pursuing efficiencies and/or an optimal checks and balances between governance and critical business operations have been established; in particular:
- the Services Centre, that is a part of the 'Human Resources, Organisation and Personnel Services' department, for the optimised management of crossover services not directly related to the development of projects/the business;
- the Supply Chain Committee, technical body of the Process Owners that defines policies and the control and/or assessment and resolution of crossover issues that are important or critical to the procurement and post order process.

The whole system of powers and proxies in Saipem has been redefined through:
- the updating of the Matrix of Authorisations of Saipem SpA which, beginning with powers reserved for the BoD and those attributed to the CEO, defines in detail the powers vested in the Division Managers and regulates the role of guidance and control guaranteed by Corporate departments. This document was the basis of the Matrix of Authorisations of the Divisions;
- the transfer of powers to the Corporate structure and the divisions, consistent with the new role.

Within the divisions, the worldwide deployment of the divisional model was launched, with particular reference to the adjustment of the organisational system (structures, powers, regulatory system) of the subsidiaries and branches.

The new phase of the 'Fit For the Future 2.0' programme launched to redefine the business processes, which in each division will address the peculiarities and specific needs of the individual business while at the same time ensuring the pursuit of simplification, effectiveness and efficiency, compliance with Corporate guidelines and observance of compliance standards and corporate governance.

As part of the programme, the alignment of the entire Regulatory System with the new organisational structure and the new operational processes is under development, which has led to the issuance of Management System Guidelines for processes that were most affected by the reorganisation and to the creation of a Work Group coordinated by the Corporate Quality department and aimed at ensuring the organic development of the System, also through the adoption of shared tools and methodologies.

The involvement of Managing Directors, HR and Quality Managers of Group subsidiaries and branches continued to ensure uniform and coordinated management of adoption and implementation locally of all Corporate Regulatory Documents issued, including through the standardisation of the Document Management System to render it easier to use and to disseminate documentation throughout the whole group.

Within the area of the Quality department, with the aim of continuous improvement of processes, two main streams of optimisation have been identified:
- the first, with regard to System, improvement and certification activities, lead to the definition of a new ISO 9001 Multi-site certification programme;
- the second, with regard to Quality Control activities carried out during Construction, Fabrication, Installation, lead to the overall

reorganisation of Insurance and Quality Control activities in the projects.

During the period, the following activities were also developed:
- completed adaptation of the Quality System of Saipem SpA to the new ISO 9001 2015;
- confirmation of ISO 3834 Certification for the Fabrication Process through Welding for Onshore Pipelines and obtained certification for the Arbatax Fabrication Yard;
- improvement and implementation across all projects of the Lessons Learned and Customer Satisfaction processes;
- implementation of monitoring and reporting systems for quality activities in branches/subsidiaries (both for companies and projects); awareness campaigns for Managing Directors/Branch Managers on governance regulations and new initiatives;
- monitoring the process of measuring Key Process Indicators in accordance with what Process Owners have defined;
- 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;
- analysis of Quality cost centres used worldwide with the aim of homogenising them and monitoring costs allocated to them.

Human Resources Management and Industrial Relations

During the first half of the year, and in the light of a continuing negative market environment, monitoring and control activities continued for various management issues, useful for achieving significant savings on various HR processes such as holidays, rest days, overtime, business travel, etc.

As in the past, these actions have also been implemented with the involvement of trade unions, continuing the necessary revision of the personnel cost structure that best suits the new international market scenario.

In the framework of the rationalisation and optimisation initiatives, a trade union agreement was signed with the unions that represented the greatest number of people in June, thanks to which the plan, launched in 2016, was expanded in Italy to ensure a change in the quantitative and qualitative mix of resources through the early retirement procedure provided for by Article 4 of the Fornero Law.

The new agreement has increased the total number of personnel to retire from 400 to 600, postponing their possibility to access the pension scheme throughout 2019.

Of the total number of retirements expected, 154 have already left between the end of 2016 and the first half of 2017.

With a view to strengthening Employee Engagement and increasing the sense of belonging to the Group, Saipem has taken a step towards introducing a new Welfare system that is more flexible and responsive to the needs of different age demographics. The new welfare system not only takes into account the different needs that can arise from individual family situations, but it also allows personnel to take advantage of new initiatives introduced in the legislation in question, both from a tax and a social security perspective, aimed at producing both a savings for the company and a greater net amount that can be spent by resources. This system has been implemented both through the introduction of a new welfare portal and through specific trade union agreements. Through these, Saipem has encouraged its employees to benefit from the company's welfare services thanks to the possibility of converting a share of the Productivity Bonus to that purpose.

The Company's industrial relations model, both in Italy and transnationally, has thus for many years now focused on ensuring the harmonisation and optimal management of relations with trade unions, employers' associations, institutions and public bodies in line with Company policies. Against this background, and always keeping in mind the commitment to strengthen dialogue between management and trade union partnerships, the procedure for electing representatives to the Special Negotiation Delegation was completed and which will, in 2017, form a new European Business Committee (CAE) representing workers employed in permanent Saipem sites operating in the European Economic Area and in Norway.

On the Overseas Industrial Relations front, the first half of 2017 was characterised by the signing of a new collective agreement in the Kwanda JV in Angola, launching a new collective bargaining season that was temporarily suspended from 2010. The key elements of the new agreement include the redefinition of healthcare provided to employees and their families through a new insurance system.

In January 2017, the renewal of the collective agreement was formalised with the SUTERM trade union for the workers employed in the El Encino Project - La Laguna in Mexico, it included wage and social security contributions adjustments in line with what was being paid at the national level. Negotiations with the FSPMI trade union were conducted in Indonesia to redefine the

minimum wage for staff employed at Karimun Yard, a result that has taken into account both the general trend of inflation and the level of compensation within the sector.
Additionally, in February 2017, the renewal of the annual agreement between Saipem Ltd and the Danish Metal Workers' Union - Maritime Section (CO-SEA), which defines basic and overtime compensation applicable to maritime personnel employed in Danish waters.
In France, within the framework of the 'Fit For the Future 2.0' programme optimisation initiatives, a procedure for the Plan de Sauvegarde de l'Emploi (PSE) (Job Safeguarding Plan) was launched in May, which will involve a maximum of 251 resources in Saipem SA.

Lastly, negotiations began on the renewal of the annual collective agreements with the SUTEPETREX and SUTRAPETREX trade unions for the protection of the drilling personnel at Petrex SA in Peru.

Regarding Industrial Relations in Italy, the achievement of an agreement for the renewal of the CCNL Energy and Oil 2016-2018 is worth mentioning.
As far as relations with trade unions are concerned, the level of dialogue has remained steady and constructive. As part of the 'Fit For the Future 2.0' programme, the company has consistently kept the union informed of its objectives and of the reorganisation process being put into practice. With regard to stipulated agreements, worthy of note is the signing of the agreement granting the Productivity Bonus for 2017 and agreements regarding work hours with the RSUs of the various locations. Through these agreements the new organisation of work hours, in addition to fostering a better life-work balance, allows for cost-savings.

In the first half of the year, with regard to operational personnel on Italian sites and operating for our different business:
- for the Italy Drilling unit, the use unemployment benefits for approximately 40 employees was extended because drilling, as decided by the client, in Basilicata was delayed;
- at the Arbatax production unit there was a series of meetings between the company and regional and local trade unions, during which the prospects in terms of workloads of the fabrication yard were highlighted;
- in the maritime sector, the renewal of the company-specific supplementary agreement was signed by the Trade Unions.

Skills and Knowledge

In order to strengthen the skills and abilities of managerial resources in accordance with the Leadership Model and to support more effectively the change management initiated following the implementation of the new organisational model, Saipem designed, working together with the MIP-Polytechnic of Milan, a blended training course dedicated to developing managerial resources, with particular reference to those that will cover government positions in major foreign contexts.
In line with and continuing the actions taken in 2016, in the first half of 2017 the Human Resources Department recommitted itself to focusing on activities and initiatives aimed at developing and consolidating Saipem's distinctive specialist skills and know-how.
The recent organisational restructuring, which led to the creation of divisions focused on specific business sectors, further strengthened the attention to the protection of the company's technical legacy as a key driver in supporting performance and distinctive competitive element in each specific business segment.
Through the continuation of the K.Map project, the scope of analysis was extended to a total population of 14,700 resources, ensuring a global monitoring of 286 roles pertaining to different business areas, considered to be particularly critical in terms of attraction and retention.
These results were also an important prerequisite for the launch of further HR redeployment and integration projects that will increasingly focus on the issues of skills and personal abilities. Particular attention will be given to strategic resource planning in order to give it more direction and make it more connected to, within the context of defining quantitative requirements, the monitoring and analysis of the evolution of distinctive business skills.

In the first half of 2017, training activities continued to focus on the development and consolidation of the distinctive skills of each professional family, with particular reference to issues considered critical to managing projects: engineering, project management, finance and economics.

On project management in the energy and plant systems sector, Saipem confirmed its commitment toward the academic world via the 'Saipem International Chair'.
As regards Compliance and Governance issues, training continued also in 2017 using both classroom and e-learning methods, for all employees in order to ensure greater knowledge and awareness.

As regards the investment in the younger generations, Saipem consolidated its commitment in the first half of 2017.
For years the Company has been promoting projects to improve the integration between

the labour market and the education system, with a view to corporate responsibility and sustainability. The 'Sinergia' Programme, created by Saipem, involves the cooperation with two Italian technical high schools, the 'Enrico Fermi' in Lecce and the 'Alessandro Volta' in Lodi, developing curricular and extra-curricular training courses and educational summer camps.
The project was extended and, via the Elis Consortium for advanced vocational training, a partnership was established with GSE, Gestore Servizi Energetici, involving not only these high schools but also the scientific high school of the Comprehensive Institute in Amatrice which was affected by the earthquake in August 2016. The initiative, called 'Laboratorio Territoriale', focused on the topic of energy efficiency measures and involved a week of intensive training, aiming to enhance both individual skills and the potential for expression within work teams.

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.

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 are generally 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.

The 2017 Compensation Policy, whose primary tools and objectives are defined in the Compensation Report, confirms its alignment with the Governance model adopted by the Company and the recommendations of the Self-discipline Code. The Policy's aim is to attract and retain high-profile professional and managerial resources, and align management's interests aiming at value creation for 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).

Occupational Health and Medicine

With regard to health and occupational medicine, in line with actions taken to maximise efficiency launched in 2016, in the first half of 2017, initiatives aimed at optimising the benefits and related costs continued. Specifically:
- further renegotiations of existing contracts with regard to Health and Occupational Medicine activities were carried out, with particular focus on the costs associated with non-core activities such as administration costs and healthcare management, management of healthcare archives, which allowed for the optimisation of services;
- a review of the activities supporting management processes for 'Fitness Medical Examinations', in compliance with the Health Guidelines (OGUK and OGP IPIECA), which has enabled a savings of more than 20%.

In terms of activities implemented by the department during the first half of 2017, we can report that the total of Saipem SpA medical visits, in Italy and overseas (missions and contract), was 1,155. There were 125 additional check-ups requested and managed by the Medical Service.

Concerning health information, from 2017 the 'Pre-Travel Counselling' Programme, now targeting all Saipem personnel destined to work abroad, is run on an e-learning basis, on the TMS3 platform shared with the Secur department, consistently with the developments and updates of international health alerts. Through this new method of health information dissemination, the programme now reaches all Saipem staff worldwide prior to their departure. At May 31, 2017, around 4,000 workers had already been informed on the risks connected with their destination, as prescribed in the laws in force and in the international guidelines.

As an integral part of the Travel Medicine training process, the 'Sì Viaggiare' Saipem app was updated and managed, by SMEL, in a manner consistent with global health alerts. Since its first launch in 2014, the app has been downloaded and installed on over 24,000 devices.

Awareness of vaccinations, mandatory and highly recommended ones in particular, continues for Saipem SpA. personnel both in Italy and overseas. 149 vaccinations were administered to 102 workers in the first five months of the year.

In the light of a strategy for innovation, the Health Department has also committed itself to pursuing this initiative and in May, the 'My Health Records' programme was released, designed and produced internally by the unit, allowing all Saipem personnel around the world to view, consult, and share information and health data that consists of the clinical and medical history of every Saipem worker. The digitisation of health records through 'My Health Records' is intended to ensure:
- more rapid and direct communication between employer, medical staff and employee;
- immediate use and transferability of the data;
- availability of a vast quantity of data in a single space;
- reduction of costs through data dematerialisation.

For the fourth year running, Saipem SpA. has subscribed to the WHP (Workplace Health Promotion) programme validated by the Lombardy Region, for the sites falling under the responsibility of ATS Città di Milano (San Donato Milanese).

Since May 2015, the Health Monitoring activity has been in progress, with the aim of preventing and monitoring obesity in offshore operations. During this project, 66 employees who suffered from the problem have been periodically monitored. By increasing the awareness and accountability of those involved, the results achieved were very encouraging and stimulating for the continuation of this significant initiative: 30.30% fell below BMI 30 (Body Mass Index).

Concerning activities implemented internationally, we underscore that the telecardiology programme continued in 57 work sites with a new Provider (Cardio on Line Europe), using 50 ECG devices to record data. The following Prevention Programmes continue to run on all operating sites: the Cardiovascular Disease Prevention Programme (CVDPP), the anti-smoking campaign - Don't Take My Breath Away and the Malaria Control Programme (MCP). In April 2017, in cooperation with Sustainability, a programme to fight malaria was launched in Angola (Ambriz), with specific training for laboratory technicians and nurses.

		Consolidated total first half	
Year 2016	(units)	**Average workforce 2016**	**Average workforce 2017**
19,492	Offshore Engineering & Construction	19,404	17,007
11,312	Onshore Engineering & Construction	11,675	10,918
2,011	Offshore Drilling	2,202	1,566
5,328	Onshore Drilling	5,806	4,733
1,360	Staff positions	1,487	1,121
39,503	**Total**	**40,574**	**35,345**
6,416	Italian personnel	6,529	6,021
33,087	Other nationalities	34,045	29,324
39,503	**Total**	**40,574**	**35,345**
6,038	Italian personnel under open-ended contract	6,107	5,752
378	Italian personnel under fixed-term contract	422	269
6,416	**Total**	**6,529**	**6,021**

Dec. 31, 2016	(units)	**June 30, 2016**	**June 30, 2017**
6,086	Number of engineers	6,597	5,832
36,859	Number of employees	39,530	34,472

INFORMATION SYSTEM

In line with the guiding principles of the company's organisational transformation into divisions, in the first half of 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 aims to place new emphasis on the digital transformation initiatives, greater focus for 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, aiming to profoundly change the ICT sourcing structure and, through a tender launched to a limited number of primary vendors, rapidly select technological and service partners to work with for a widespread review of the forms of procurement of ICT services and the pursuit of the corporate transformation objectives.

Support to the innovation initiatives launched by the company during 2016 was also confirmed, according to the new organisational structure level Digital, defined for the Innovation, Systems and Corporate Marketing Director. 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 corporate business, and others have been planned for the second half of the year. 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. The plan, covering around twenty application-based and infrastructural initiatives, reached its final phases – all that remains to be completed is a review of the sound system for vessels and an application solution for the Legal Office.

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 transit to the platform has 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 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. 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 Saipem India Projects, 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. To this end, the ICT department has implemented new automated drawing generation processes based on Intergraph SmartPlant 3D modelling, and released new solutions for the cross-checking of engineering data based on Aveva Engineering and Intergraph Fusion, in order to improve the quality of the data produced by means of precise data quality techniques. These solutions have by now been leveraged on a number of contracts, transforming the 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 and enabling 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.
Finally an ICT risk assessment process was completed by performing a relevant number of BIA (Business Impact Analyses), in order to evaluate properly the risks associated with data processing by Company information systems, as well as any mitigation measures adopted.

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 Integrated 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, ensuring greater consistency of methodologies and tools to support risk management, and strengthening awareness, at all levels, of the fact that an adequate assessment and management of risks may impact on the achievement of objectives and on the Company's value.
The structure of Saipem's internal control system, which is an integral part of the Company's Organisational and Management Model, assigns specific roles to the Company's management bodies, Compliance Committees, control bodies, Company management and all personnel. It is based on the principles contained in the Code of Ethics and the Corporate Governance Code, as well as on applicable legislation, the CoSO Report and national and international best practices.
Additional information on the internal control system and risk management, including details concerning its architecture, instruments and design, as well as the roles, responsibilities and duties of its key actors, is contained in the Corporate Governance Report and Shareholding Structure document.
Saipem is exposed to risk factors related to the Group's business activities and to the activities of the industry 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 condensed consolidated interim financial statements' for information on liabilities for risks set aside.

Financial risks 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 risk that suitable sources of funding for the Group's operations may not be available;
(iv) the risk connected to a possible downgrade.

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.

(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 rates

Exchange rate risk derives from the fact that Saipem's operations are conducted in currencies other than the euro and that revenues and costs from a significant portion of projects implemented are denominated and settled in non-euro currencies.
This impacts on:

- individual profits, which may be significantly affected by exchange rate fluctuations on specific transactions arising from the time lag existing between the execution of a given transaction and the definition of the relevant contractual terms (economic risk) and by the conversion of foreign currency-denominated trade and financial payables and receivables (transaction risk);
- 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.

Saipem's foreign exchange risk management policy is to minimise economic and transactional exposures arising from foreign currency movements and to optimise the economic exchange risk connected with commodity prices.
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 uses a number of different types of derivative contract to reduce economic and transaction exposure. To this end different types of Saipem hedges net exposure to economic and transactional risk through the use of certain derivatives (outright and swap) are used. Exchange rate derivatives are evaluated at fair value on the basis of standard market evaluation algorithms and market prices provided by specialised sources. Planning, coordination and management of this activity at Group level is the responsibility of the Saipem Finance function, 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 the first half of 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 analysis was performed for all relevant financial assets and liabilities denominated in the currencies considered and regarded in particular the following items:
- 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 conditions underlying the forward price fixed in the contract (i.e. spot exchange rate and interest rate) 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. Furthermore, the Company does not use hedging methods in reference to the risk deriving from the conversion into euro of balance sheets of foreign companies that use a currency other than the euro.
In consideration of the above, even if Saipem adopts a strategy for minimising currency, economics and transaction exposure by using different types of derivatives (outrights and swaps), it cannot completely eliminate the fact that changes in exchange rates could have a significant impact on the Group's results and the comparability of the results between individual financial years.
A positive variation in exchange rates between the foreign currencies examined and the euro (i.e. depreciation of the euro against the other currencies) would have produced an overall effect on pre-tax profit of -€36 million (-€148 million at December 31, 2016) and an overall effect on shareholders' equity, before related tax effects, of -€148 million (-€287 million at December 31, 2016).
Meanwhile, a negative variation in exchange rates between the foreign currencies examined and the euro (i.e. appreciation of the euro against the other currencies) would have produced an overall effect on pre-tax profit of €36 million (€148 million at December 31, 2016) and an overall effect on shareholders' equity, before related tax effects, of €148 million (€287 million at December 31, 2016).
The increases/decreases with respect to the previous year are essentially due to the performance of currencies at maturity dates and to variations in the financial assets and liabilities exposed to exchange rate fluctuations.

Market risk - Interest rate

Interest rate fluctuations influence the market value of the Company's financial assets and the level of net finance expense, since some loans are agreed on a variable interest rate basis. To reduce this risk, Interest Rate Swaps (IRS) are entered into.
The objective of the risk management process is to minimise the interest rate risk, by pursuing financial structure objectives defined and approved by the Management. When loans at variable rates are stipulated, the Finance function of Saipem Group evaluates their consistency with market standards and, when necessary intervenes to mediate interest rate changes through Interest Rate Swap (IRS) operations. Planning, coordination and management of this activity at Group level is the responsibility of the Saipem Finance function, 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 function 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 of hypothetical positive and negative variations of 10% in interest rates.
The analysis was performed for 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 interest rate derivatives, the sensitivity analysis on fair value was conducted by comparing the interest rate conditions (fixed and variable rate) underlying the contract and used to calculate future interest rate differentials with discount curves for variable interest rates on the basis of period end interest rates subjected to hypothetical positive and negative changes of 10%, with the resulting changes weighted on the basis of the notional amounts. For cash and cash equivalents, the analysis used the average balance for the year and the average rate of return for the year, while for short and long-term financial liabilities, the average exposure for the year and average interest rate for the year were considered.
A positive variation in interest rates would not have produced any effect on pre-tax profit (-€5 million at December 31, 2016) and an overall effect on shareholders' equity, before related tax, of €1 million (-€4 million at December 31, 2016). A negative variation in interest rates would not have produced any effect on pre-tax profit (€5 million at December 31, 2016) and an overall effect on shareholders' equity, before related tax effects, of -€1 million (€4 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 financial assets and liabilities exposed to interest rate fluctuations.

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, 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 trades over the counter derivatives (swap and bullet swaps in particular) whose underlying commodities are oil products (mainly gasoil and naphtha) on the organised ICE and NYMEX 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 are entered into 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. Despite the hedging instruments adopted by the Company to control and manage price 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 function 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 functions 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 Treasury Finance function 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, in light of the critical financial

market situation, it is not possible to exclude the possibility that one or the Group companies may delay payments, or fail to make payments, within the defined terms and conditions.
A possible delay or non-payment of the amounts due by the main customers could make it difficult to perform and/or complete the orders, with the need to recover the costs and expenses sustained through legal actions.

(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. As a result, even if the Group has implemented measures for ensuring that suitable levels of working capital and cash will be available, possible delays in the progress of projects and/or in the definition of positions being finalised with customers could have an impact on the ability and/or on the time period of 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 a flexible management of liquidity and credit lines suitable with business requirements, Saipem believes it has access to sufficient funding 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 available and proper sources of funding to cover its overall financial requirements. Through the transactions carried out on the banking and capital market in the course of 2016 and during the first half of 2017, the Group has structured its sources of funding mainly along medium to long term deadlines with a maturity of between 3 and 8.5 years.
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 €15 million. In addition to the above, on April 5, 2017 Saipem issued, under its EMTN programme, fixed-rate bonds for an overall nominal value of €500 million with expiry date April 2022.
At June 30, 2017, Saipem has unused credit lines of €1,753 million, to which can be added the availability of cash at the same date of €1,811 million.
In addition to the above, Saipem may use the remaining amount, equivalent to €266 million of the line guaranteed by GIEK (subject to purchases of equipment and services from Norwegian exporters) and the remaining amount of €244 million of the credit line guaranteed by Atradius.

(iv) Downgrading risk

On October 28, 2015, the Company obtained from Standard & Poor's Ratings Services a 'BBB-' preliminary long term corporate credit rating with a 'stable' outlook and a 'BBB-' preliminary issue rating for the Term Facility and the Revolving Credit Facility.
Furthermore, on the same date, Moody's Investor Service assigned the company a provisional issuer rating equal to '(P)Baa3' with a 'stable' outlook.
On February 4, 2016, Standard & Poor's Ratings Services informed the Company that it had formally commenced a 'Credit Watch' procedure with possible negative implications for Saipem's Preliminary Long Term Corporate Credit Rating 'BBB-', mainly because of the collapse in the price of crude which could significantly limit Saipem's financial flexibility.
On February 10, 2016, Moody's Investors Service announced that Saipem's Provisional Issuer Rating '(P)Baa3' had been placed under review for downgrading, due to the weak fundamentals of the Oil & Gas sector and the subsequent increase in the risk of cancellations and delays of projects and the reduction of investments in the industry.
On May 6, 2016, S&P Global Ratings (previously Standard & Poor's Ratings Services) lowered the Company's Long Term Corporate Credit Rating and the Issue Rating from 'BBB-' to 'BB+', with a negative outlook, at the same time removing them from the negative 'Credit Watch' and bringing them to definite status following completion of the share capital increase and of the Company's debt refinancing. This downgrade reflected the vision of S&P Global Rating in relation to the Oil & Gas industry and a more prudent vision on Saipem's future credit parameters,

together with the level of backlog orders and the ability to sustain operating cash flows without significant fall-offs.
On May 23, 2016, Moody's Investors Service lowered and converted the Provisional Issuer Rating '(P)Baa3' into a Corporate Family Rating (CFR) 'Ba1', assigning a stable outlook to all ratings.
On May 17, 2017, S&P Global Ratings issued an update report confirming the 'BB +' rating with a negative outlook for long term corporate credit rating and senior unsecured facilities including a Term Loan Facility of €1.6 billion, a Revolving Credit Facility of €1.5 billion and three bond issues of €500 million each made on the Euro EMTN programme of Saipem.
On June 15, 2017, Moody's Investor Services published an update report confirming the 'Ba1' rating for the 'corporate family rating' with a stable outlook and for senior unsecured facilities including three bond issues of €500 million each made on the Euro EMTN programme of Saipem.
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.

	Maturity					
(€ million)	2018 (1)	2019	2020	2021	After	Total
Long-term debt	446	747	399	544	1,101	3,237
Short-term debt	134	-	-	-	-	134
Derivative liabilities	27	-	-	-	-	27
Total	**607**	**747**	**399**	**544**	**1,101**	**3,398**
Interest on debt	104	63	54	49	54	324

(1) Includes the second half of 2017.

The following table shows the due dates of trade and other payables.

	Maturity			
(€ million)	2018 (1)	2019-2021	After	Total
Trade payables	2,394	-	-	2,394
Other payables and advances	1,967	-	-	1,967

(1) Includes the second half of 2017.

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.

	Maturity					
(€ million)	2018 (1)	2019	2020	2021	After	Total
Non-cancellable operating leases	150	91	80	77	218	616

(1) Includes the second half of 2017.

The table below summarises Saipem's investment commitments for major projects, for which procurement contracts have already been signed.

	Maturity
(€ million)	2018 (1)
Committed on major projects	-
Other committed projects	40
Total	**40**

(1) Includes the second half of 2017.

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

The Company operates in the highly competitive Oil & Gas sector and has been penalised in recent years by the reduction of investment programmes by Saipem's main clients due to the collapse of the share price. 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 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, subsequently, a reduction in margins from those originally estimated, leading to a reduction, perhaps even significant, 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.

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

The market context is characterised by ongoing downward trend of oil prices, lower global growth than expected, and an elevated supply of shale oil. All this 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; and (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.
This context may lead to a deterioration in relations with clients and, in the most significant cases, to international arbitration.

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 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 missed or late payments of sales rates by the clients.

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 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 inefficiencies in 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.

Risks related to technological development

Saipem's business 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.

Risks related to legal proceedings involving the Company

The Group is 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 condensed consolidated interim 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.

Risks related to the Group's strategic positioning

The definition of the strategies implemented by Saipem is based on the analysis of the macroeconomic and geopolitical scenarios within the reference markets and the technological developments applied to them, as well as on the analysis of competitive positioning in the various business sectors; Saipem operates in sectors recently affected by strategic changes; the result of M&A operations, the creation of joint ventures and alliances.
Inadequate forecasts of the development of such scenarios, incorrect or delayed implementation of the strategies identified, the impossibility of progressive operations due to the Company's multi-business profile are all factors which may expose the Company to a deteriorated competitive position within each sector, reducing market share and profit margins of the Group.

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

The Group is subject to the risk of fraud and/or unlawful activities on the part of employees and third parties. Specifically, in carrying out its 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. Despite this, and despite the fact that Saipem has implemented and constantly updates a system of internal control, a Code of Ethics and an Organisation, Management and Control model pursuant to Italian Legislative Decree No. 231/2001, as well as an Organisation, Management and Control model for Group companies with registered offices in foreign countries, it is not possible to exclude the occurrence of fraudulent or unlawful behaviour.
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, 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 the Company 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.
Finally, 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.

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 2016 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.

Risks related to the volatility of the Group's economic and financial results on the basis of payments agreed on a cost-to-cost basis for works progress

In accordance with common practise 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 profit 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 project cost estimations and hence the profitability of long-term projects may, therefore, change following the uncertainties associated with this type of contract, even if they were reasonably reliable when made. In the event of significant cost adjustments, the reductions in profit over the whole project life cycle may have 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 most likely 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.

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 Group's activities are subject to the possible occurrence of incidents that could have repercussions on 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. The 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.

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, 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.

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 and image to potential damage.
In cases where Saipem's ability to operate is temporarily 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.
For this reason, Saipem monitors compliance with laws in force and with its targets to reduce to a minimum the impacts from its operational activities. 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.
Finally, any violations of health, safety and environmental laws could lead to limitations to the Group's activities or to fines, sanctions or penalties.

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 statistics for recent

years, industry statistics and conditions offered by the international insurance market.
The Saipem insurance programme is structured in such a way as to appropriately transfer risks deriving from operations to the insurance market, in particular the risks associated with the management of the fleet, equipment and other assets, including third party liability risks and risks deriving from the performance of contracts awarded by its clients.
Given the coverage that is offered by the insurance market and the changing circumstances on the energy market in which Saipem operates, it is not possible to guarantee that all circumstances and events will be adequately covered by the insurance programme. Equally, due to the volatility of the insurance market, it cannot be guaranteed that it will be possible in the future to reasonably maintain adequate insurance coverage at the current rates, terms and conditions.
Within the Saipem insurance programme, a distinction can be made between insurance cover for Group assets ('Corporate insurance policies') and the insurance cover connected with project execution.

Corporate insurance policies

The Corporate insurance programme is structured with an initial band of risk that is self-insured through a captive reinsurance company, with amounts in excess covered by a catastrophic insurance programme taken out on the insurance market.
The catastrophic insurance programme is composed of policies that cover damage to property, and maritime and non-maritime third party liability. Cover can be broken down as follows:

Material damages

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

Third-party liability

- 'Protection & Indemnity' ('P&I') policy: shipowners' liability cover through a P&I Club that is part of the International Group of P&I Clubs for events occurring during transit and 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, 2017, Saipem successfully launched a fixed rate bond issue with 5-year tenor for a total amount of €500 million. The notes are issued by Saipem Finance International BV under the Euro Medium Term Notes Programme (EMTN Programme). The 5-year bond pays a fixed annual coupon of 2.75%. The re-offer price is 100%. 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 proceeds of the bond were used to partially pre-pay the term loan facility of €1.6 billion.

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, respectively into 1,010,966,827 new ordinary shares and 10,612 new savings shares, with a ratio of one new ordinary share without nominal value for every ten existing ordinary shares, and of one new savings share 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.

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 €1.5 billion already issued). Renewing the EMTN Programme will allow the Company to minimise the time it takes to seize funding opportunities offered by the capital market and institutional investors through the future issue of bonds.

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 Programme regards 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.
At their meeting of July 24, 2017, the Board of Directors set at 7,841,200 the number of treasury shares to be bought back to cover the 2017 allocation of the Plan (equal to 0.776% of the share capital). In order not to exceed the limitations provided by Article 2357, paragraph 3, of the Italian Civil Code, the number of shares to be purchased, and their price, shall take into account the number and value of treasury shares already held by Saipem, as well as the reverse stock split operation approved by the Shareholders' Meeting on April 28, 2017.
The resolution approved by the Shareholders' Meeting on April 28, 2017 allows for the purchase of a maximum number of 84,000,000 pre-reverse split shares (corresponding to 8,400,000 post-reverse split shares, equal to 0.831% of the Company's share capital) in one or more tranches, for a maximum period of 18 months, and for an amount not exceeding €50 million. Based on the current price of Saipem SpA. shares on the Milan Stock Exchange (July 25, 2017), the potential maximum outlay for the buy-back operation is estimated at around €26 million.
Purchase of the shares will take place through the granting of a specific mandate to an authorised intermediary, Banca Akros SpA, which will carry out the purchases in complete independence and without any influence whatsoever from Saipem SpA in relation to the timing of the purchases or the conditions thereof.

Regulation on Markets

Article 36 of Consob Regulation on Markets (adopted with resolution No. 16191/2007, as amended): 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 June 30, 2017, the regulatory provisions of Article 36 of the Regulation on Markets applied to the following 19 subsidiaries:
   - Saudi Arabian Saipem Ltd;
   - Petrex SA;
   - Snamprogetti Saudi Arabia Co Ltd Llc;
   - Global Petroprojects Services AG;
   - Saipem America Inc;
   - Saipem Contracting (Nigeria) Ltd;
   - PT Saipem Indonesia;
   - Saipem do Brasil Serviçõs de Petroleo Ltda;
   - Boscongo SA;
   - Saimexicana Sa de Cv;
   - ER SAI Caspian Contractor Llc;
   - Saipem Canada Inc;
   - Saipem Services Mexico SA de Cv;
   - Saipem Misr for Petroleum Services (S.A.E.);
   - Sigurd Rück AG;
   - Sajer Iraq Co for Petroleum Services, Trading, General Contracting & Transport Llc;
   - Saipem Offshore Norway AS;
   - Saipem Drilling Norway AS;
   - Snamprogetti Engineering & Contracting Co Ltd.

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 June 30, 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 47 in the Notes to the condensed consolidated interim financial statements.

Outlook

The market context in which the Company operates is challenging, especially in the offshore sectors.

The acquisition of new projects was also included in the second quarter, and in spite of good visibility in the short term, the contribution to the 2017 financial year will be very limited. Consequently, earnings guidance for the year was revised to approximately €9.5 billion.

Despite this, the excellent operational performances, especially those in the Offshore Engineering & Construction sector, allow the company to keep the EBITDA guidance unchanged.

Adjusted net profit is estimated at approximately €200 million. This excludes special items, in other words, asset write-downs, including those arising from impairment tests, restructuring charges, as wells as the settlement of tax disputes in May 2017.

Capital expenditure is forecasted to remain less than €400 million thanks to measures of containment taken.

Good performance in the first half of the year strengthens confidence in compliance with the guidance for the end of the year, which is confirmed at around €1.4 billion.

Non-GAAP measures

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

Non-GAAP measures are disclosed to enhance the user's understanding of the Group's performance and are not intended to

be considered as a substitute for IFRS measures.
The non-GAAP measures used in the 'Operating and Financial Review' are as follows:
- cash flow: the sum of net profit plus depreciation and amortisation;
- capital expenditure: calculated by excluding investments in equity interests from total investments;
- EBITDA: a useful measure for evaluating the operating performance of the Group as a whole and of the individual sectors of activity, in addition to operating profit. EBITDA is an intermediate measure, which is calculated by adding depreciation and amortisation to operating profit;
- non-current assets: the sum of net tangible assets, net intangible assets and investments;
- net current assets: includes working capital and provisions for contingencies;
- net capital employed: the sum of non-current assets, working capital and the provision for employee benefits;
- funding: shareholders' equity, non-controlling interest and net borrowings;
- special items: (i) non-recurring events or transactions; (ii) events or transactions that are not considered to be representative of the ordinary course of business.

Events subsequent to period-end

New contracts

On July 27, 2017, Saipem and Petrobel have finalised offshore contract variations worth 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 gas export pipeline and a service pipeline, as well as EPCI work for field development in deep water of 4 wells and the installation of umbilical cables. Saipem will use some highly specialised vessels from its own fleet.

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		June 30, 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		4,902
Note 12 - Property, plant and equipment	*5,192*		*4,902*	
B) Net intangible assets		755		753
Note 13 - Intangible assets	*755*		*753*	
C) Investments		147		148
Note 14 - Investments	*149*		*150*	
Reclassified from E) - provisions for losses related to investments	*(2)*		*(2)*	
D) Working capital		713		1,019
Note 7 - Trade and other receivables	*3,020*		*2,640*	
Reclassified to I) - financing receivables not related to operations	*(3)*		*(1)*	
Note 8 - Inventories	*2,242*		*2,099*	
Note 9 - Current tax assets	*192*		*202*	
Note 10 - Other current tax assets	*241*		*258*	
Note 11 - Other current assets	*144*		*198*	
Reclassified to I) - financing receivables not related to operations	*-*		*-*	
Note 15 - Deferred tax assets	*302*		*289*	
Note 16 - Other non-current assets	*102*		*102*	
Note 18 - Trade and other payables	*(4,860)*		*(4,361)*	
Note 19 - Income tax payables	*(96)*		*(84)*	
Note 20 - Other current tax payables	*(265)*		*(215)*	
Note 21 - Other current liabilities	*(244)*		*(74)*	
Note 25 - Deferred tax liabilities	*(59)*		*(34)*	
Note 26 - Other non-current liabilities	*(3)*		*-*	
E) Provisions for contingencies		(266)		(267)
Note 23 - Provisions for contingencies	*(268)*		*(269)*	
Reclassified to C) - provisions for losses related to investments	*2*		*2*	
F) Provisions for employee benefits		(206)		(206)
Note 24 - Provisions for employee benefits	*(206)*		*(206)*	
EMPLOYED CAPITAL, NET		**6,335**		**6,349**
G) Shareholders' equity		4,866		4,817
Note 29 - Saipem's shareholders' equity	*4,866*		*4,817*	
H) Non-controlling interests		19		28
Note 28 - Non-controlling interests	*19*		*28*	
I) Net debt		1,450		1,504
Note 5 - Cash and cash equivalents	*(1,892)*		*(1,811)*	
Note 6 - Other financial assets held for trading or available for sale	*(55)*		*(55)*	
Note 17 - Short-term debt	*152*		*134*	
Note 22 - Long-term debt	*3,194*		*2,990*	
Note 22 - Current portion of long-term debt	*54*		*247*	
Reclassified from D) - financing receivables not related to operations (Note 7)	*(3)*		*(1)*	
FUNDING		**6,335**		**6,349**

Reclassified income statement

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

- the items 'other income and revenues' (€5 million) relating mainly to 'reimbursements for services that are not part of core operations', which are indicated in the statutory scheme under the item 'other income and revenues', have been recorded as reductions to the corresponding cost items in the reclassified income statement;
- 'finance income' (€129 million), 'finance expenses' (-€316 million) and 'derivatives' (€72 million), which are indicated separately under the statutory scheme, are stated under the item 'finance (expense) income' (-€115 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 solely for the following reclassifications:

- the items 'depreciation and amortisation' (€264 million), 'net impairment of tangible and intangible assets' (€85 million), other changes' (€121 million), 'change in the provision for employee benefits' (€3 million) and 'effect of accounting using the equity method' (-€2 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' (€471 million);
- the items 'interest expense' (€37 million), 'income taxes' (€110 million) and 'interest income' (-€3 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' (€144 million);
- the items regarding changes in 'trade payables' (-€262 million), 'trade receivables' (€206 million), 'provisions for contingencies' (€9 million), 'inventories' (€67 million) and 'other assets and liabilities' (-€219 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' (-€199 million);
- the items 'interest received' (€3 million), 'income taxes paid net of refunds of tax credits' (-€233 million) and 'interest paid' (-€25 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' (-€255 million);
- the items relating to investments in 'tangible assets' (-€145 million) and 'intangible assets' (-€2 million), indicated separately and included in cash flow from investing activities in the statutory scheme, are shown net under the item 'capital expenditure' (-€147 million);
- the items relating to disposals of 'financing receivables' (€7 million) and the items relating to investments in 'financial receivables' (-€5 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' (€2 million);
- the items relating to 'proceeds from long-term debt' (-€5 million), 'increase (decrease) in short-term debt' (€50 million) and 'repayments of long-term debt' (-€7 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' (€38 million).

All other items are unchanged.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Balance sheet

(€ million)	Note	Dec. 31, 2016 Total	Dec. 31, 2016 *of which with related parties* [1]	June 30, 2017 Total	June 30, 2017 *of which with related parties* [1]
ASSETS					
Current assets					
Cash and cash equivalents	(No. 5)	1,892		1,811	
Other financial assets held for trading or available for sale	(No. 6)	55		55	
Trade and other receivables	(No. 7)	3,020	663	2,640	521
Inventories	(No. 8)	2,242		2,099	
Current tax assets	(No. 9)	192		202	
Other current tax assets	(No. 10)	241		258	
Other current assets	(No. 11 and 27)	144	1	198	1
Total current assets		**7,786**		**7,263**	
Non-current assets					
Property, plant and equipment	(No. 12)	5,192		4,902	
Intangible assets	(No. 13)	755		753	
Investments accounted for using the equity method	(No. 14)	148		149	
Other investments	(No. 14)	1		1	
Deferred tax assets	(No. 15)	302		289	
Other non-current assets	(No. 16 and 27)	102	1	102	1
Total non-current assets		**6,500**		**6,196**	
TOTAL ASSETS		**14,286**		**13,459**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	(No. 17)	152		134	
Current portion of long-term debt	(No. 22)	54		247	
Trade and other payables	(No. 18)	4,860	376	4,361	154
Income tax payables	(No. 19)	96		84	
Other current tax payables	(No. 20)	265		215	
Other current liabilities	(No. 21 and 27)	244	8	74	-
Total current liabilities		**5,671**		**5,115**	
Non-current liabilities					
Long-term debt	(No. 22)	3,194		2,990	
Provisions for contingencies	(No. 23)	268		269	
Provisions for employee benefits	(No. 24)	206		206	
Deferred tax liabilities	(No. 25)	59		34	
Other non-current liabilities	(No. 26 and 27)	3		-	
Total non-current liabilities		**3,730**		**3,499**	
TOTAL LIABILITIES		**9,401**		**8,614**	
SHAREHOLDERS' EQUITY					
Non-controlling interests	(No. 28)	19		28	
Saipem's shareholders' equity:	(No. 29)	4,866		4,817	
- share capital	(No. 30)	2,191		2,191	
- share premium reserve	(No. 31)	1,750		1,049	
- other reserves	(No. 32)	(80)		(35)	
- retained earnings		3,161		1,791	
- net profit (loss) for the period		(2,087)		(110)	
- negative reserve for treasury shares in portfolio	(No. 33)	(69)		(69)	
Total shareholders' equity		**4,885**		**4,845**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**14,286**		**13,459**	

(1) For an analysis of figures shown as 'of which with related parties', see Note 47 'Transactions with related parties'.

Income statement

(€ million)	Note	First half 2016 Total	First half 2016 of which with related parties [1]	First half 2017 Total	First half 2017 of which with related parties [1]
REVENUES					
Net sales from operations	(No. 35)	5,275	636	4,590	1,042
Other income and revenues	(No. 36)	19		5	
Total revenues		**5,294**		**4,595**	
Operating expenses					
Purchases, services and other costs	(No. 37)	(3,764)	(106)	(3,268)	(33)
Payroll and related costs	(No. 38)	(949)	(1)	(854)	-
Depreciation, amortisation and impairment	(No. 39)	(345)		(349)	
Other operating income (expense)	(No. 40)	1		-	
OPERATING RESULT		**237**		**124**	
Finance income (expense)					
Finance income		636	4	129	-
Finance expense		(676)	(24)	(316)	-
Derivative financial instruments		(30)	(353)	72	-
Total finance income (expense)	(No. 41)	**(70)**		**(115)**	
Income (expense) from investments					
Share of profit (loss) of equity accounted investments		9		2	
Other income from investments		-		-	
Total income (expense) from investments	(No. 42)	**9**		**2**	
RESULT BEFORE INCOME TAXES		**176**		**11**	
Income taxes	(No. 43)	(120)		(110)	
NET PROFIT (LOSS) FOR THE PERIOD		**56**		**(99)**	
Attributable to:					
- Saipem		53		(110)	
- non-controlling interests	(No. 44)	3		11	
Earnings (losses) per share attributable to Saipem (€ per share)					
Basic earnings (losses) per share	(No. 45)	0.075 [2]		(0.11)	
Diluted earnings (losses) per share	(No. 45)	0.075 [2]		(0.11)	

(1) For an analysis of figures shown as 'of which with related parties', see Note 47 'Transactions with related parties'.
(2) Values restated following the reverse stock split (see Note 45 'Earnings (losses) per share').

Statement of comprehensive income

(€ million)	First half 2016	First half 2017
Net profit (loss) for the period	**56**	**(99)**
Other items of comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans for employees	-	-
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans	-	-
Income tax relating to items that will not be reclassified	-	-
Items that may be reclassified subsequently to profit or loss		
Change in the fair value of cash flow hedges	148	218
Changes in the fair value of investments held as fixed assets	-	
Exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(22)	(108)
Share of other comprehensive income of investments accounted for using the equity method	-	-
Income tax relating to items that will be reclassified	(38)	(51)
Total other items of comprehensive income net of taxation	**88**	**(59)**
Total comprehensive income (loss) for the period	**144**	**(40)**
Attributable to:		
- Saipem Group	139	(49)
- non-controlling interests	5	9

Statement of changes in shareholders' equity

	Saipem shareholders' equity													
(€ million)	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Cash flow hedge reserve, net of tax	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings (losses carried forward)	Net profit (loss) for the period	Negative reserve for treasury shares in portfolio	Total	Minority interest	Total shareholders' equity
Balance at December 31, 2015	**441**	**55**	**6**	**88**	**-**	**(267)**	**76**	**(18)**	**3,942**	**(806)**	**(43)**	**3,474**	**45**	**3,519**
Net profit (loss) for the first half of 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53**	**-**	**53**	**3**	**56**
Other items of comprehensive income														
Items that will not be reclassified subsequently to profit or loss														
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Items that may be reclassified subsequently to profit or loss														
Change in the fair value of cash flow hedging derivatives net of the tax effect	-	-	-	-	-	107	-	-	-	-	-	107	3	110
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	(22)	-	1	-	-	(21)	(1)	(22)
Share of other comprehensive income of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**107**	**(22)**	**-**	**1**	**-**	**-**	**86**	**2**	**88**
Total recognised income (expense) for the first half of 2016	**-**	**-**	**-**	**-**	**-**	**107**	**(22)**	**-**	**1**	**53**	**-**	**139**	**5**	**144**
Transactions with shareholders														
Dividend distribution first half of 2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	(65)	-	-	(65)	-	(65)
Approval for buy-back of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deadline for approval for buy-back of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,750**	**1,695**	**(5)**	**-**	**-**	**-**	**-**	**-**	**(811)**	**806**	**-**	**3,435**	**-**	**3,435**
Other changes in shareholders' equity														
Expired stock options	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	1	-	-	1	-	(1)	1	-	-	2	(2)	-
Transactions with companies under common control	-	-	-	-	-	-	-	-	2	-	-	2	-	2
Total	**-**	**-**	**1**	**-**	**-**	**1**	**-**	**(1)**	**3**	**-**	**-**	**4**	**(2)**	**2**
Balance at June 30, 2016	**2,191**	**1,750**	**2**	**88**	**-**	**(159)**	**54**	**(19)**	**3,135**	**53**	**(43)**	**7,052**	**48**	**7,100**
Net profit (loss) for the second half of 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,140)**	**-**	**(2,140)**	**4**	**(2,136)**
Other items of comprehensive income														
Items that will not be reclassified subsequently to profit or loss														
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)
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**(1)**

cont'd Statement of changes in shareholders' equity

(€ million)	Saipem shareholders' equity													
	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Cash flow hedge reserve, net of tax	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings (losses carried forward)	Net profit (loss) for the period	Negative reserve for treasury shares in portfolio	Total	Minority interest	Total shareholders' equity
Items that may be reclassified subsequently to profit or loss														
Change in the fair value of cash flow hedging derivatives net of the tax effect	-	-	-	-	-	(22)	-	-	-	-	-	(22)	-	(22)
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	(22)	(1)	7	-	-	(16)	1	(15)
Share of other comprehensive income of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in investments and securities at fair value	-	-	-	-	-	-	-	-	1	-	-	1	-	1
Total	**-**	**-**	**-**	**-**	**-**	**(22)**	**(22)**	**(1)**	**8**	**-**	**-**	**(37)**	**1**	**(36)**
Total comprehensive income (loss) for the second half of 2016	**-**	**-**	**-**	**-**	**-**	**(22)**	**(22)**	**(2)**	**8**	**(2,140)**	**-**	**(2,178)**	**5**	**(2,173)**
Transactions with shareholders														
Dividend distribution second half of 2016	-	-	-	-	-	-	-	-	-	-	-	-	(36)	(36)
Capitalisation of costs of share capital increase net of taxes	-	-	-	-	-	-	-	-	18	-	-	18	-	18
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	-	(26)	(26)	-	(26)
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18**	**-**	**(26)**	**(8)**	**(36)**	**(44)**
Other changes in shareholders' equity														
Fair value of Stock Grant Plan 2016	-	-	-	-	-	-	-	-	5	-	-	5	-	5
Other changes	-	-	-	-	-	(1)	-	1	(5)	-	-	(5)	2	(3)
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**1**	**-**	**-**	**-**	**-**	**2**	**2**
Balance at December 31, 2016	**2,191**	**1,750**	**2**	**88**	**-**	**(182)**	**32**	**(20)**	**3,161**	**(2,087)**	**(69)**	**4,866**	**19**	**4,885**
Net profit (loss) for the first half of 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(110)**	**-**	**(110)**	**11**	**(99)**
Other items of comprehensive income														
Items that will not be reclassified subsequently to profit or loss														
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(110)**	**-**	**(110)**	**11**	**(99)**
Items that may be reclassified subsequently to profit or loss														
Change in the fair value of cash flow hedging derivatives net of the tax effect	-	-	-	-	-	167	-	-	-	-	-	167	-	167
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	(122)	-	16	-	-	(106)	(2)	(108)
Share of other comprehensive income of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**167**	**(122)**	**-**	**16**	**-**	**-**	**61**	**(2)**	**59**
Total recognised income (expense) for the first half of 2017	**-**	**-**	**-**	**-**	**-**	**167**	**(122)**	**-**	**16**	**(110)**	**-**	**(49)**	**9**	**(40)**
Transactions with shareholders														
Dividend distribution first half of 2017	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**(701)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,387)**	**2,087**	**-**	**(1)**	**-**	**(1)**
Other changes in shareholders' equity														
Fair value of Stock Grant Plan 2016	-	-	-	-	-	-	-	-	2	-	-	2	-	2
Other changes	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**	**-**	**1**
Balance at June 30, 2017	**2,191**	**1,049**	**2**	**88**	**-**	**(15)**	**(90)**	**(20)**	**1,791**	**(110)**	**(69)**	**4,817**	**28**	**4,845**

Cash flow statement

(€ million)	Note	First half 2016		First half 2017	
Net profit (loss) for the period		53		(110)	
Non-controlling interests		3		11	
Adjustments to reconcile net profit to net cash provided by operating activities:					
- depreciation and amortisation expense	(No. 39)	344		264	
- net impairment of tangible and intangible assets	(No. 39)	1		85	
- share of profit (loss) of equity accounted investments	(No. 42)	(9)		(2)	
- net (gains) losses on disposal of assets		2		1	
- interest receivable		(7)		(3)	
- interest expense		47		37	
- income taxes	(No. 43)	120		110	
- other changes		(24)		121	
Changes in working capital:					
- inventories		(321)		67	
- trade receivables		437		206	
- trade payables		179		(262)	
- provisions for contingencies		(11)		9	
- other assets and liabilities		(486)		(219)	
Cash flow from working capital		*(202)*		*(199)*	
Change in the provision for employee benefits		(3)		3	
Dividends received		1		-	
Interest received		2		3	
Interest paid		(38)		(25)	
Income taxes paid net of refunds of tax credits		(103)		(233)	
Net cash provided by operating activities		**187**		**63**	
of which with related parties (1)	(No. 47)		**167**		**929**
Investing activities:					
- tangible assets	(No. 12)	(92)		(145)	
- intangible assets	(No. 13)	(5)		(2)	
- investments	(No. 14)	-		(9)	
- financing receivables		-		(5)	
- change in payables and receivables relating to investments		-		-	
Cash flow from investing activities		*(97)*		*(161)*	
Disposals:					
- tangible assets		4		6	
- consolidated subsidiaries and businesses		-		-	
- investments		-		1	
- financing receivables		27		7	
Cash flow from disposals		*31*		*14*	
Net cash used in investing activities (2)		**(66)**		**(147)**	
of which with related parties (1)	(No. 47)		**3**		**-**
Proceeds from long-term debt		3,172		(5)	
Repayments of long-term debt		(3,204)		(7)	
Increase (decrease) in short-term debt		(2,921)		50	
		(2,953)		**38**	
Net capital contributions by non-controlling interests		3,435		(2)	
Dividend distribution		-		-	
Sale of treasury shares		-		-	
Net cash from financing activities		**482**		**36**	
of which with related parties (1)	(No. 47)		**(5,995)**		**-**
Effect of changes in consolidation		-		-	
Effect of exchange rate changes and other changes on cash and cash equivalents		(13)		(33)	

(1) For an analysis of figures shown as 'of which with related parties', see Note 47 'Transactions with related parties'.

cont'd **Cash flow statement**

(€ million)	Note	First half 2016	First half 2017
Net cash for the period		**590**	**(81)**
Cash and cash equivalents - beginning of period	(No. 5)	**1,066**	**1,892**
Cash and cash equivalents - end of period	(No. 5)	**1,656**	**1,811**

(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 'Operating and Financial Review'.
The cash flows of these investments were as follows:

(€ million)	First half 2016	First half 2017
Financing investments:		
- financing receivables	-	(2)
Disposal of financing investments:		
- financing receivables	27	4
Net cash flows from investments/disposals related to financing activities	**27**	**2**

Notes to the condensed consolidated interim financial statements

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 Basis of presentation

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The structure of the financial statements is the same as that used in the annual report.
The condensed consolidated interim financial statements have been prepared in accordance with the same principles of consolidation and evaluation criteria described in the annual report, to which reference is made. The notes to the financial statements are presented in condensed form.
Current income taxes are determined on the basis of estimated taxable income at the balance sheet date. Current income tax assets and liabilities are measured at the amount expected to be paid to/recovered from the tax authorities, using tax laws that have been enacted or substantively enacted by the end of the reporting period and tax rates estimated on an annual basis.
Consolidated companies, non-consolidated subsidiaries, interests in joint ventures and joint operations and associated companies are indicated in the section 'Scope of consolidation', which constitutes an integral part of these notes. The same section contains a list detailing the changes that occurred in the scope of consolidation during the period. The condensed consolidated interim financial statements as of June 30, 2017, approved by Saipem's Board of Directors on July 24, 2017, were subjected to a limited review by the independent auditor EY SpA. A limited review is substantially less in scope than an audit performed in accordance with generally accepted auditing standards.
Amounts stated in financial statements and the notes thereto are in millions of euros.

Foreign currency translation

Financial statements of foreign companies having a functional currency other than euro are converted into euro applying: (i) closing exchange rates for assets and liabilities; (ii) historical exchange rates for equity accounts; (iii) the average rates for the period to the income statement (source: Banca d'Italia).
Cumulative exchange rate differences resulting from this translation are recognised in shareholders' equity under the caption 'Cumulative currency translation differences' for the portion relating to the Group's share and under 'Non-controlling interests' for the portion related to non-controlling interests. Cumulative exchange differences are charged to the income statement when an investment is fully disposed of or when the investment ceases to qualify as a controlled company. 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 non-controlling interests in equity.
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 at Dec. 31, 2016	Exchange at June 30, 2017	2017 average exchange rate
US Dollar	1.0541	1.1412	1.0830
British Pound Sterling	0.85618	0.87933	0.86059
Algerian Dinar	116.379	123.026	118.537
Angolan Kwanza	175.757	189.278	179.757
Argentine Peso	16.7488	18.8851	17.0173
Australian Dollar	1.4596	1.4851	1.4364
Brazilian Real	3.4305	3.76	3.44
Canadian Dollar	1.4188	1.4785	1.4453
Croatian Kuna	7.5597	7.4103	7.44860
Egyptian Pound	19.2105	20.6441	19.44834
Ghanaian New Cedi	4.4073	4.97769	4.67072
Indian Rupee	71.5935	73.7445	71.1760
Indonesian Rupee	14,173.4	15,209.3	14,434.2
Kazakhstan Tenge	351.524	367.422	345.254
Malaysian Ringgit	4.7287	4.8986	4.75108
Nigerian Naira	332.305	351.601	335.237
Norwegian Kroner	9.0863	9.5713	9.1785
Peruvian New Sol	3.5402	3.70976	3.54834
Qatari Riyal	3.83692	4.15397	3.94220
Romanian New Leu	4.539	4.5523	4.53704
Russian Rouble	64.3	67.5449	62.8057
Saudi Arabian Riyal	3.95446	4.27974	4.06180
Singapore Dollar	1.5234	1.571	1.5208
Swiss Franc	1.0739	1.093	1.0766

2 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.
Accounting estimates are a critical factor in the preparation of consolidated financial statements and interim reports 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.
For a description of the accounting estimates used, see the 2016 Annual Report.

3 Changes to accounting standards

There were no changes made to accounting criteria. The changes to the accounting standards and interpretations issued by the IASB/IFRIC effective as of January 1, 2017, for more information refer to the 2016 Annual Report, ‘Recent accounting principles’ (IAS 12 ‘Recognition of Deferred Tax Assets for Unrealised Losses’, IAS 7 ‘Disclosure Initiative’ and amendments to IFRS 12 ‘Disclosure of Interest in Other Entities’ contained in the Annual Improvements to IFRS Standards 2014-2016 Cycle), have not yet been approved by the European Commission.

Recent accounting principles

With regard to recent accounting principles, in addition to the information provided in the 2016 annual report, to which reference is made, please note the following.

On May 18, 2017, the IASB issued IFRS 17 ‘Insurance Contracts’ (hereinafter IFRS 17) 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 clarification on various general issues (such as the determination of tax profits/losses, taxable income, unused tax receivables and tax losses, applicable tax rates) or specific (e.g. when the recognition of a current tax credit is appropriate if tax legislation requires immediate payment for a contingent amount) in circumstances where there is uncertainty about the tax treatment In application of IAS 12. IFRS 23 provisions are effective for annual periods beginning on or after January 1, 2019.

Saipem is currently analysing the changes and evaluating any impact they may have on the financial statements when implemented.

With regard to IFRS 15 'Revenue from Contracts with Customers' which, as of January 1, 2018, will replace the existing IAS 11 'Construction Contracts' and IAS 18 'Revenue', operations launched in 2016 continued during the first half of 2017 to identify potentially critical situations with regard to the different types of contracts, to assess the potential impact on the budget and on financial reporting.
Specifically, the new principle will have an effect on: (i) methods and timelines for the recognition of contractual changes, and (ii) the recognition of some costs previously attributed to the project for which the new principle requires capitalisation.

With regard to IFRS 9 'Financial Instruments' which, as of January 1, 2018, will replace the current IAS 39 'Financial Instruments, Recognition and Measurement' the project, that began in 2016, continued during the first half of 2017 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. In particular, with reference to the impairment of financial assets on the basis of expected losses, continued analysis of the internal model for the valuation of counterparty default risk exposure, their ability to recover/default probabilities and the resulting impact on the financial statements, as well as identifying possible credit risk mitigation tools to be put in place.

Particularly with regard to the new IFRS 16 'Leases', analyses launched in 2016 continued during in the first half of 2017, to identify the potential criticalities of the contracts in question, to assess the potential impacts on the financial statements and to adjustments to financial reporting support systems.
The application of this new principle will in fact have significant impacts on the Saipem Group's net financial position and the recognition of right of use for tangible assets.

4 Scope of consolidation at June 30, 2017

Parent company

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
Saipem SpA	San Donato Milanese	EUR	2,191,384,693	Eni SpA CDP Equity SpA (formerly Fondo Strategico Italiano) Saipem SpA Third parties	30.54 12.55 0.70 56.21		

Subsidiaries

Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
Denuke Scarl	San Donato Milanese	EUR	10,000	Saipem SpA Third parties	55.00 45.00	55.00	F.C.
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 Third parties	60.00 40.00	60.00	F.C.
Snamprogetti Chiyoda sas di Saipem SpA	San Donato Milanese	EUR	10,000	Saipem SpA Third parties	99.90 0.10	99.90	F.C.

Outside Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
Andromeda Consultoria Tecnica e Representações Ltda	Rio de Janeiro (Brazil)	BRL	9,494,210	Saipem SpA Snamprogetti Netherlands BV	99.00 1.00	100.00	F.C.
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 Third parties	50.00 50.00	50.00	F.C.
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	Karakiyan 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	152,778,100	Saipem International BV Saipem Asia Sdn Bhd	68.55 31.45	100.00	F.C.
SAGIO - Companhia Angolana de Gestão de Instalaçao Offshore Ltda	Luanda (Angola)	AOA	1,600,000	Saipem International BV Third parties	60.00 40.00	60.00	E.M.

(*) F.C. = full consolidation, W.I. = working interest, E.M. = equity method, Co. = cost method

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
Saigut SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	90,050,000	Saimexicana SA de Cv	100.00	100.00	F.C.
SAIMEP Lda	Maputo (Mozambique)	MZN	70,000,000	Saipem SA Saipem International BV	99.98 0.02	100.00	F.C.
Saimexicana SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	5,341,669,200	Saipem SA	100.00	100.00	F.C.
Saipem (Beijing) Technical Services Co Ltd	Beijing (China)	USD	1,750,000	Saipem International BV	100.00	100.00	F.C.
Saipem (Malaysia) Sdn Bhd	Kuala Lumpur (Malaysia)	MYR	1,033,500	Saipem International BV Third parties	41.94 58.06	100.00	F.C.
Saipem (Nigeria) Ltd	Lagos (Nigeria)	NGN	259,200,000	Saipem International BV Third parties	89.41 10.59	89.41	F.C.
Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	Caniçal (Portugal)	EUR	299,278,738	Saipem International BV	100.00	100.00	F.C.
Saipem America Inc	Wilmington (USA)	USD	1,000	Saipem International BV	100.00	100.00	F.C.
Saipem Argentina de Perforaciones, Montajes y Proyectos Sociedad Anónima, Minera, Industrial, Comercial y Financiera (**) (***)	Buenos Aires (Argentina)	ARS	1,805,300	Saipem International BV Third parties	99.90 0.10	99.90	E.M.
Saipem Asia Sdn Bhd	Kuala Lumpur (Malaysia)	MYR	8,116,500	Saipem International BV	100.00	100.00	F.C.
Saipem Australia Pty Ltd	West Perth (Australia)	AUD	566,800,001	Saipem International BV	100.00	100.00	F.C.
Saipem Canada Inc	Montreal (Canada)	CAD	100,100	Saipem International BV	100.00	100.00	F.C.
Saipem Contracting (Nigeria) Ltd	Lagos (Nigeria)	NGN	827,000,000	Saipem International BV Third parties	97.94 2.06	97.94	F.C.
Saipem Contracting Algérie SpA	Algeri (Algeria)	DZD	1,556,435,000	Sofresid SA	100.00	100.00	F.C.
Saipem Contracting Netherlands BV	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV	100.00	100.00	F.C.
Saipem Contracting Prep SA	Panama (Panama)	USD	500	Saipem SA	100.00	100.00	F.C.
Saipem do Brasil Serviçõs de Petroleo Ltda	Rio de Janeiro (Brazil)	BRL	1,850,796,299	Saipem International BV	100.00	100.00	F.C.
Saipem Drilling Co Private Ltd	Chennai (India)	INR	50,273,400	Saipem SA	100.00	100.00	F.C.
Saipem Drilling Llc	Moscow (Russia)	RUB	10,000	Saipem International BV	100.00	100.00	F.C.
Saipem Drilling Norway AS	Sola (Norway)	NOK	100,000	Saipem International BV	100.00	100.00	F.C.
Saipem East Africa Ltd	Kampala (Uganda)	UGX	50,000,000	Saipem International BV Third parties	51.00 49.00	51.00	E.M.
Saipem Finance International BV	Amsterdam (Netherlands)	EUR	1,000,000	Saipem International BV Saipem SpA	75.00 25.00	100.00	F.C.
Saipem India Projects Private Ltd	Chennai (India)	INR	407,000,000	Saipem SA	100.00	100.00	F.C.
Saipem Ingenieria Y Construcciones SLU	Madrid (Spain)	EUR	80,000	Saipem International BV	100.00	100.00	F.C.
Saipem International BV	Amsterdam (Netherlands)	EUR	172,444,000	Saipem SpA	100.00	100.00	F.C.
Saipem Libya LLC - SA.LI.CO. Llc	Tripoli (Libya)	LYD	10,000,000	Saipem International BV Snamprogetti Netherlands BV	60.00 40.00	100.00	F.C.
Saipem Ltd	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 accounting principle (*)
Saipem Luxembourg SA	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.
Saipem Maritime Asset Management Luxembourg Sàrl	Luxembourg (Luxembourg)	USD	378,000	Saipem SpA	100.00	100.00	F.C.
Saipem Misr for Petroleum Services (S.A.E.)	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.
Saipem Norge AS	Sola (Norway)	NOK	100,000	Saipem International BV	100.00	100.00	F.C.
Saipem Offshore Norway AS	Sola (Norway)	NOK	120,000	Saipem SpA	100.00	100.00	F.C.
Saipem Romania Srl	Bucharest (Romania)	RON	30,191,794	Snamprogetti Netherlands BV Saipem International BV	99.00 1.00	100.00	F.C.
Saipem SA	Montigny le Bretonneux (France)	EUR	481,337,452	Saipem SpA	100.00	100.00	F.C.
Saipem Services México SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	50,000	Saimexicana SA de Cv	100.00	100.00	F.C.
Saipem Singapore Pte Ltd	Singapore (Singapore)	SGD	28,890,000	Saipem SA	100.00	100.00	F.C.
Saiwest Ltd (***)	Accra (Ghana)	GHS	937,500	Saipem SA Third parties	49.00 51.00	49.00	Co.
Sajer Iraq Co for Petroleum Services, Trading, General Contracting & Transport Llc	Baghdad (Iraq)	IQD	300,000,000	Saipem International BV Third parties	60.00 40.00	60.00	F.C.
Saudi Arabian Saipem Ltd	Al-Khobar (Saudi Arabia)	SAR	5,000,000	Saipem International BV Third parties	60.00 40.00	60.00	F.C.
Sigurd Rück AG	Zurich (Switzerland)	CHF	25,000,000	Saipem International BV	100.00	100.00	F.C.
Snamprogetti Engineering & Contracting Co Ltd	Al-Khobar (Saudi Arabia)	SAR	10,000,000	Snamprogetti Netherlands BV Third parties	70.00 30.00	70.00	F.C.
Snamprogetti Engineering BV	Schiedam (Netherlands)	EUR	18,151	Saipem Maritime Asset Management Luxembourg Sàrl	100.00	100.00	F.C.
Snamprogetti Lummus Gas Ltd (**)	Sliema (Malta)	EUR	50,000	Snamprogetti Netherlands BV Third parties	99.00 1.00	99.00	Co.
Snamprogetti Netherlands BV	Amsterdam (Netherlands)	EUR	203,000	Saipem SpA	100.00	100.00	F.C.
Snamprogetti Saudi Arabia Co Ltd Llc	Al-Khobar (Saudi Arabia)	SAR	10,000,000	Saipem International BV Snamprogetti Netherlands BV	95.00 5.00	100.00	F.C.
Sofresid Engineering SA	Montigny le Bretonneux (France)	EUR	1,267,143	Sofresid SA Third parties	99.99 0.01	100.00	F.C.
Sofresid SA	Montigny le Bretonneux (France)	EUR	312,253,842	Saipem SA	100.00	100.00	F.C.
Sonsub International Pty Ltd	Sydney (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.
(***) Inactive throughout the year.

Associates and jointly controlled companies

Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
ASG Scarl	San Donato Milanese	EUR	50,864	Saipem SpA Third parties	55.41 44.59	55.41	E.M.
CEPAV (Consorzio Eni per l'Alta Velocità) Due	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	52.00 48.00	52.00	E.M.
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	50.36 49.64	50.36	E.M.
Consorzio F.S.B.	Venice - Marghera	EUR	15,000	Saipem SpA Third parties	29.10 70.90	29.10	Co.
Consorzio Sapro	San Giovanni Teatino	EUR	10,329	Saipem SpA Third parties	51.00 49.00	51.00	Co.
Rodano Consortile Scarl	San Donato Milanese	EUR	250,000	Saipem SpA Third parties	53.57 46.43	53.57	E.M.
Rosetti Marino SpA	Ravenna	EUR	4,000,000	Saipem SA Third parties	20.00 80.00	20.00	E.M.
Ship Recycling Scarl	Genoa	EUR	10,000	Saipem SpA Third parties	51.00 49.00	51.00	W.I.

Outside Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
02 Pearl Snc	Montigny le Bretonneux (France)	EUR	1,000	Saipem SA Third parties	50.00 50.00	50.00	E.M.
CCS LNG Mozambique Lda (***)	Maputo (Mozambique)	MZN	150,000	Saipem International BV Third parties	33.33 66.67	33.33	E.M.
CCS Netherlands BV (***)	Amsterdam (Netherlands)	EUR	300,000	Saipem International BV Third parties	33.33 66.67	33.33	E.M.
Charville - Consultores e Serviços Lda	Funchal (Portugal)	EUR	5,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
CMS&A WII	Doha (Qatar)	QAR	500,000	Snamprogetti Netherlands BV Third parties	20.00 80.00	50.00	E.M.
CSFLNG Netherlands BV	Amsterdam (Netherlands)	EUR	600,000	Saipem SA Third parties	50.00 50.00	50.00	E.M.
Hazira Cryogenic Engineering & Construction Management Private Ltd	Mumbai (India)	INR	500,000	Saipem SA Third parties	55.00 45.00	55.00	E.M.
KWANDA Suporte Logistico Lda	Luanda (Angola)	AOA	25,510,204	Saipem SA Third parties	40.00 60.00	40.00	E.M.
Mangrove Gas Netherlands BV	Amsterdam (Netherlands)	EUR	2,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Petromar Lda	Luanda (Angola)	USD	357,143	Saipem SA Third parties	70.00 30.00	70.00	E.M.
Sabella SAS	Quimper (France)	EUR	8,596,830	Sofresid Engineering SA Third parties	13.50 86.50	13.50	E.M.

(*) F.C. = full consolidation, W.I. = working interest, E.M. = equity method, Co. = cost method
(***) Inactive throughout the year.

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle (*)
Saipar Drilling Co BV	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Saipem Dangote E&C Ltd (***)	Victoria Island - Lagos (Nigeria)	NGN	100,000,000	Saipem International BV Third parties	49.00 51.00	49.00	E.M.
Saipem Taqa Al Rushaid Fabricators Co Ltd	Dammam (Saudi Arabia)	SAR	40,000,000	Saipem International BV Third parties	40.00 60.00	40.00	E.M.
Saipon Snc	Montigny le Bretonneux (France)	EUR	20,000	Saipem SA Third parties	60.00 40.00	60.00	W.I.
Sairus Llc	Krasnodar (Russia)	RUB	83,603,800	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Société pour la Réalisation du Port de Tanger Méditerranée	Anjra (Morocco)	EUR	33,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
Southern Gas Constructors Ltd	Lagos (Nigeria)	NGN	10,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
SPF - TKP Omifpro Snc	Paris (France)	EUR	50,000	Saipem SA Third parties	50.00 50.00	50.00	E.M.
Sud-Soyo Urban Development Lda (***)	Soyo (Angola)	AOA	20,000,000	Saipem SA Third parties	49.00 51.00	49.00	E.M.
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	Porto Salvo - Concelho de Oeiras (Portugal)	EUR	700,000	Saipem SA Third parties	42.50 57.50	42.50	E.M.
T.C.P.I. Angola Tecnoprojecto Internacional SA	Luanda (Angola)	AOA	9,000,000	Petromar Lda Third parties	35.00 65.00	24.50	E.M.
TMBYS SAS	Guyancourt (France)	EUR	30,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
TSGI Mühendislik İnşaat Ltd Şirketi	Istanbul (Turkey)	TRY	108,600,000	Saipem Ingenieria Y Construcciones SLU Third parties	33.31 66.69	33.33	E.M.
TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	Funchal (Portugal)	EUR	5,000	TSKJ - Servições de Engenharia Lda	100.00	25.00	E.M.
TSKJ - Nigeria Ltd	Lagos (Nigeria)	NGN	50,000,000	TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	100.00	25.00	E.M.
TSKJ - Servições de Engenharia Lda	Funchal (Portugal)	EUR	5,000	Snamprogetti Netherlands BV Third parties	25.00 75.00	25.00	E.M.
Xodus Subsea Ltd	London (United Kingdom)	GBP	1,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.

The Saipem Group comprises 100 companies: 59 are consolidated using the full consolidation method, 2 using the working interest method, 35 using the equity method and 4 using the cost method.
At June 30, 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
Subsidiaries/JO and their participating interests	**5**	**54**	**59**	**1**	**1**	**2**
Companies consolidated using the full consolidation method	5	54	59	-	-	-
Companies consolidated using the working interest method	-	-	-	1	1	2
Participating interests held by consolidated companies (1)	**-**	**5**	**5**	**7**	**27**	**34**
Accounted for using the equity method	-	3	3	5	27	32
Accounted for using the cost method	-	2	2	2	-	2
Total companies	**5**	**59**	**64**	**8**	**28**	**36**

(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
(***) Inactive throughout the year.

Changes in the scope of consolidation

There were no significant changes in the scope of consolidation during the first six months of 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 1, 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.

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: 33.31% held by Saipem Ingenieria Y Construcciones SLU and 66.69% 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

5 Cash and cash equivalents

Cash and cash equivalents amounted to €1,811 million, representing a decrease of €81 million compared with December 31, 2016 (€1,892 million).
Cash and cash equivalents at the end of the year, denominated in euros for 73%, US dollars for 7% and other currencies for 20%, were found to be remunerated at an average rate of 0.323%. 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 €78 million at June 30, 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 €5 million decrease in the frozen amount is due to exchange-rate differences (for further details, see the section 'Legal proceedings - Algeria - Proceedings in Algeria', and also Note 51 'Additional information: Algeria').
Furthermore, the equivalent of €8 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 several suppliers.
The breakdown of cash and cash equivalents of Saipem and other Group companies at December 31, 2016 by geographical area (based on the country of domicile of the relevant company) was as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Italy	639	1,235
Rest of Europe	227	142
CIS	554	21
Middle East	281	195
Far East	57	62
North Africa	85	80
West Africa and Rest of Africa	5	40
Americas	44	36
Total	**1,892**	**1,811**

6 Other financial assets held for trading or available for sale

Other financial assets held for trading or available for sale amounted to €55 million (unchanged compared to the amount at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Financing receivables for non-operating purposes		
Listed bonds issued by sovereign states/supranational institutions	26	26
Listed bonds issued by industrial enterprises	29	29
Total	**55**	**55**

Listed bonds issued by sovereign states/supranational institutions at June 30, 2017 of €26 million were as follows:

(€ million)	Notional value	Fair value	Nominal rate of return (%)	Maturity	Standard & Poor's rating classification
Fixed rate bonds					
France	3	3	2.50	2020	AA
Ireland	4	5	5.00	2020	A+
Spain	2	2	3.75	2018	BBB+
Poland	7	8	3.75-4.00	2023	BBB+
Other	7	8	1.375-2.50	2019-2020	AAA/A
Total	**23**	**26**			

Listed bonds issued by industrial enterprises at June 30, 2017 of €29 million were as follows:

(€ million)	Notional value	Fair value	Nominal rate of return (%)	Maturity	Standard & Poor's rating classification
Fixed rate bonds					
Listed securities issued by industrial enterprises	27	29	0.00-6.25	2019-2026	AA-/BBB
Total	**27**	**29**			

The fair value of available-for-sale securities is determined on the basis of market prices. The fair value hierarchy is level 1.

7 Trade and other receivables

Trade and other receivables of €2,640 million (€3,020 million at December 31, 2016) were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Trade receivables	2,613	2,263
Financing receivables for operating purposes	3	3
Financing receivables for non-operating purposes	3	1
Prepayments for services	247	230
Other receivables	154	143
Total	**3,020**	**2,640**

Receivables are stated net of a provision for impairment losses of €595 million.

(€ million)	Dec. 31, 2016	Additions	Deductions	Currency translation differences	Other changes	June 30, 2017
Trade receivables	636	1	(9)	(42)	2	588
Other receivables	6	-	-	-	-	6
Financing receivables for non-operating purposes	1	-	-	-	-	1
Total	**643**	**1**	**(9)**	**(42)**	**2**	**595**

Trade receivables amounted to €2,263 million, representing a decrease of €350 million compared to December 31, 2016.
At June 30, 2017, Saipem had non-recourse non-notification factoring agreements relating to trade receivables, including not past due receivables, amounting to €79 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 €292 million (€331 million at December 31, 2016), of which €109 million was due within one year and €183 million due after one year.
Financing receivables for operating purposes of €3 million (unchanged compared to the amount at December 31, 2016) were mainly related to receivables held by Saipem SpA from Serfactoring SpA.
Other receivables of €143 million were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Receivables from:		
- insurance companies	9	-
- employees	26	30
Guarantee deposits	10	10
Other receivables	109	103
Total	**154**	**143**

Trade receivables and other receivables from related parties are detailed in Note 47 '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.
For details on amounts relating to completed projects in Algeria, see Note 51 'Additional information: Algeria'.

8 Inventories

Inventories amounted to €2,099 million (€2,242 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Raw and auxiliary materials and consumables	394	361
Contract work in progress	1,848	1,738
Total	**2,242**	**2,099**

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 €140 million. Due to changes in prospects for use the semi-submersible platform Scarabeo 5 and its inventory was written-down for a total of €12 million.

(€ million)	Dec. 31, 2016	Additions	Deductions	Other changes	June 30, 2017
Raw and auxiliary materials and consumables valuation allowance	143	20	(19)	(4)	140
Total	**143**	**20**	**(19)**	**(4)**	**140**

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 46 'Segment information, geographical information and construction contracts'.
For details on amounts relating to completed projects in Algeria, see Note 51 'Additional information: Algeria'.

9 Current tax assets

Current tax assets amounted to €202 million (€192 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Italian tax authorities	52	53
Foreign tax authorities	140	149
Total	**192**	**202**

10 Other current tax assets

Other current tax assets amounted to €258 million (€241 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Italian tax authorities	16	41
Foreign tax authorities	225	217
Total	**241**	**258**

11 Other current assets

Other current assets amounted to €198 million (€144 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Fair value on derivatives financial instruments	30	86
Other assets	114	112
Total	**144**	**198**

The fair value of derivative financial instruments is commented on Note 27 'Derivative financial instruments'.
Other assets at June 30, 2017 amounted to €112 million, representing a decrease of €2 million compared with December 31, 2016, and consisted mainly of prepayments.
Other assets from related parties are shown in Note 47 'Transactions with related parties'.

NON-CURRENT ASSETS

12 Property, plant and equipment

Property, plant and equipment amounted to €4,902 million (€5,192 million at December 31, 2016) and consisted of the following:

(€ million)	Gross value at Dec. 31, 2016	Provision for depreciation and impairments at Dec. 31, 2016	Net value at Dec. 31, 2016	Capital expenditure	Depreciation, amortisation and impairment	Disposals	Exchange differences	Other changes	Final net value at June 30, 2017	Final gross value at June 30, 2017	Provision for depreciation and impairments at June 30, 2017
Property, plant and equipment	13,860	8,668	5,192	145	(345)	(8)	(82)	-	4,902	13,576	8,674
Total	**13,860**	**8,668**	**5,192**	**145**	**(345)**	**(8)**	**(82)**	**-**	**4,902**	**13,576**	**8,674**

Capital expenditure in the first half of 2017 amounted to €145 million (€92 million in the first half of 2016) and mainly related to:
- €40 million in the Offshore Engineering & Construction sector: maintenance and upgrading of the existing asset base;
- €1 million in the Onshore Engineering & Construction sector: purchase of equipment;
- €63 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, as well as maintenance and upgrading of the existing asset base;
- €41 million in the Onshore Drilling: upgrading of rigs for operations in Kuwait and Saudi Arabia, 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.
Exchange rate differences due to the translation of financial statements prepared in currencies other than euro, amounting to negative €82 million.
During the first half of the year, no government grants were recorded as a decrease of the carrying value of property, plant and equipment.
At June 30, 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 June 30, 2017 is indicated in the 'Risk management' section of the 'Operating and Financial Review'.
Property, plant and equipment includes assets carried under finance leases amounting to the equivalent of €29 million, relating to finance leases for the utilisation of two onshore drilling rigs in Saudi Arabia for a period of 36 months starting in 2015.
Due to the changed outlook for use in subsequent years, the semi-submersible platform Scarabeo 5 was completely written-down for an amount of €32 million.

Impairment

In reviewing its impairment indicators, Saipem considers, among other factors, the relationship between its market capitalisation and net assets. At June 30, 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 account of the fact that the market continues to be characterised by low oil prices and great volatility, an impairment test was run for every single cash generating unit. Specifically, the 14 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 with the exclusion of the leased FPSO, the Onshore Drilling division, and the individual Offshore Drilling rigs (10 separate rigs).
The Strategic Plan for 2017-2020, approved by Board of Directors in October 2016 constitutes the basis for the assessment of the recoverable amount of each cash generating units taking into account the last available update on 2017 expected results, the impact in the following years of the plan of specific contracts renegotiations, as well as the expected effects of the experienced competition higher than previously envisaged in offshore drilling market. In particular, for the Offshore Drilling CGUs, plan projections and the relative cash flows have been updated in order to reflect the reduction of drilling dayrates and the planned drop in operating costs and investments.
The CGUs were tested for impairment by comparing the respective carrying amount with the relative recoverable value, represented by the higher between the value in use and the fair value, net of disposal costs. In view of the nature of Saipem's business activities, the calculation of the recoverable amount was determined by discounting the future cash flows expected to result from the use of each CGU.
Cash flow projection are determined on the basis of the best information available at the moment of the estimate taking into account future expectations of management with regard to the relevant markets. The projections of the 2017-2020 Strategic Plan, revised to take into account the new projections regarding Offshore Drilling rigs and, for other CGUs, to take into account information from the second forecast and the actual result as of June 30, 2017 have been used for the impairment test as a basis for estimating the cash flows for the first four years. For the years following the fourth year, the cash flows have been calculated on the basis of a terminal value, determined: (a) for the cash generating units Onshore Engineering & Construction, Onshore Drilling and Offshore Engineering & Construction using the perpetuity model, applying a real growth rate of zero to the normalised free cash flow of the final projection year (to take into account the dynamics of the business and the cyclical nature of the sector); (b) for the Leased FPSO Vitoria cash generating units and for the Offshore Drilling rigs, on the basis of the residual economic and technical life of the individual assets, considering beyond the plan horizon: (i) daily rates for the individual rigs expected by the management; (ii) normalised figures for days of utilisation (to take into account rig downtime for maintenance, etc.); (iii) operating costs based on data for the last year of the plan, adjusted for inflation; and (iv) normalised figures for investments for cyclical maintenance and replacements.

Value in use was calculated by discounting post tax cash flows at a rate of 7.8% (up 0.6% in 2016 caused by higher risk free interest rates during the first half of 2017). The discount rate used (WACC) reflects market assessments of the time value of money and the risks specific to Saipem's business that are not reflected in the estimate of future cash flows and has been estimated taking into account: (i) of a debt cost that is consistent with the cost estimated for the four years of the plan; (ii) of Saipem's average leverage during the period of the plan; (iii) of the beta risk coefficient of the Saipem stock. Post-tax cash flows and discounting rates were used as they result in values similar to those resulting from a pre-tax valuation.
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 division.
The impairment test determined that a reduction in the carrying amount of two offshore rigs and one FPSO vessel for a total of €53 million was necessary.
Accordingly, at June 30, 2017, Saipem Group recorded a total write-downs of €97 million, which had an impact of €22 million on the Onshore Engineering & Construction division and of €75 million on the Offshore Drilling division.
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 a reduction in the impairment equal to €141 million;
- decreases in the discount rate of 1% would produce a reduction in the impairment equal to €35 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 €52 million; and
- 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 €327 million.

The excess of the recoverable amount of the Drilling Onshore cash generating unit over the corresponding value of the net capital employed in the cash generating unit is reduced to zero under the following circumstances:

- decrease by 9% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 8.3%;
- use of a real growth rate of 1.4%.

Further, the excess of the recoverable amount over the value of the net capital employed in the Onshore Drilling CGU would not materially change in the event that working capital flows have been zeroed.

13 Intangible assets

Intangible assets of €753 million (€755 million at December 31, 2016) consisted of the following:

(€ million)	Gross value at Dec. 31, 2016	Provision for depreciation and impairments at Dec. 31, 2016	Net value at Dec. 31, 2016	Capital expenditure	Depreciation, amortisation and impairment	Disposals	Exchange differences	Other changes	Final net value at June 30, 2017	Final gross value at June 30, 2017	Provision for depreciation and impairments at June 30, 2017
Intangible assets with finite useful lives	215	188	27	2	(4)	-	1	-	26	217	191
Other intangible assets with indefinite useful lives	728	-	728	-	-	-	(1)	-	727	727	-
Total	**943**	**188**	**755**	**2**	**(4)**	**-**	**-**	**-**	**753**	**944**	**191**

Goodwill of €727 million related 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)	June 30, 2017
Offshore E&C	415
Onshore E&C	312
Total	**727**

The changes in the Onshore Engineering & Construction cash generating unit concerned a change in goodwill of the Moss Maritime Group due to effects of changes in foreign exchange rates.
The recoverable amount of the two cash generating units was determined based on value in use, calculated by discounting the future cash flows expected to result from the use of 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 12 'Property, plant and equipment'.

The table below shows the amounts by which the recoverable amounts of the Offshore Engineering & Construction and Onshore Engineering & Construction cash generating units exceed their carrying amounts, including allocated goodwill.

(€ million)	Offshore	Onshore	Total
Goodwill	415	312	727
Amount by which recoverable amount exceeds carrying amount	614	164	778

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) are described below.
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 of 22% in the operating result;
- use of a discount rate of 9.3%;
- use of a terminal cash flows growth rate of 0.2%.

Further, the excess of the recoverable amount over the value of the net capital employed in the Offshore Engineering & Construction CGU is still positive even after the working capital flows have been zeroed.
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 of 28% in the operating result;
- use of a discount rate of 9.7%;
- zero terminal cash flows growth rate.

Further, the excess of the recoverable amount over the value of the net capital employed in the Onshore Engineering & Construction CGU is still positive even after the working capital flows have been zeroed.

14 Investments

Investments accounted for using the equity method

Investments accounted for using the equity method of €149 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
Dec. 31, 2016												
Investments in subsidiaries, joint ventures and associates	135	-	(3)	26	(7)	(4)	-	2	(1)	-	148	-
Total	**135**	**-**	**(3)**	**26**	**(7)**	**(4)**	**-**	**2**	**(1)**	**-**	**148**	**-**
June 30, 2017												
Investments in subsidiaries, joint ventures and associates	148	9	(1)	10	(8)	-	-	(9)	-	-	149	-
Total	**148**	**9**	**(1)**	**10**	**(8)**	**-**	**-**	**(9)**	**-**	**-**	**149**	**-**

Investments accounted for using the equity method are detailed in Note 4 'Scope of consolidation at June 30, 2017'.
Acquisitions and subscriptions of €9 million related to the subscription, following a capital increase, of TSGI Mühendislik İnşaat Ltd Şirketi.
The share of profit of investments accounted for using the equity method of €10 million included profits for the period of €6 million recorded by the joint venture companies and €4 million for the period recorded by associates.
The share of losses of investments accounted for using the equity method of €8 million mainly concern the results recorded by the joint venture companies.

The net carrying value of investments accounted for using the equity method related to the following companies:

(€ million)	Group interest (%)	Net value at Dec. 31, 2016	Net value at June 30, 2017
Rosetti Marino SpA	20.00	31	32
Petromar Lda	70.00	52	53
Other		65	64
Total investments accounted for using the equity method		**148**	**149**

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 amounted to €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.

15 Deferred tax assets

Deferred tax assets of €289 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	June 30, 2017
Deferred tax assets	302	10	(6)	(17)	289
Total	**302**	**10**	**(6)**	**(17)**	**289**

The item 'Other changes', which amounted to negative €17 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €6 million); (ii) the negative tax effects (€24 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; (iii) other changes (positive €1 million).
Net deferred tax assets consisted of the following:

(€ million)	Dec. 31, 2016	June 30, 2017
Deferred tax liabilities	(233)	(202)
Offsettable deferred tax assets	174	168
Net deferred tax liabilities	**(59)**	**(34)**
Non-offsettable deferred tax assets	302	289
Net deferred tax assets (liabilities)	**243**	**255**

Tax losses

Tax losses amounted to €3,057 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 27.9% for foreign companies.
Tax losses related mainly to foreign companies and can be used in the following periods:

(€ million)	Italy	Outside Italy
2017	-	90
2018	-	59
2019	-	37
2020	-	16
2021	-	24
After 2021	-	845
Without limit	364	1,622
Total	**364**	**2,693**

Taxes are shown in Note 43 'Income taxes'.

16 Other non-current assets

Other non-current assets of €102 million (€102 million at December 31, 2016) were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Fair value on derivatives financial instruments	2	2
Other receivables	16	15
Other non-current assets	84	85
Total	**102**	**102**

The fair value of derivative financial instruments is commented on Note 27 'Derivative financial instruments'.
Other non-current assets mainly related to prepayments.
Other non-current assets from related parties are shown in Note 47 'Transactions with related parties'.

CURRENT LIABILITIES

17 Short-term debt

Short-term debt of €134 million (€152 million at December 31, 2016) consisted of the following:

(€ million)	Dec. 31, 2016	June 30, 2017
Banks	144	119
Other financial institutions	8	15
Total	**152**	**134**

Short-term debt decreased by €18 million. The current portion of long-term debt, amounting to €247 million (€54 million at December 31, 2016), is detailed in Note 22 '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			June 30, 2017		
			Interest rate%			Interest rate%	
Issuing institution	Currency	Amount	from	to	Amount	from	to
Third parties	Euro	51	0.00	0.50	52	0.00	0.32
Third parties	US Dollar	1	0.00	0.00	5	0.00	0.00
Third parties	Other	100	variable		77	variable	
Total		**152**			**134**		

At June 30, 2017, Saipem had unused lines of credit amounting to €2,263 million (€1,650 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 47 'Transactions with related parties'.

18 Trade and other payables

Trade and other payables of €4,361 million (€4,860 million at December 31, 2016) consisted of the following:

(€ million)	Dec. 31, 2016	June 30, 2017
Trade payables	2,770	2,394
Deferred income and advances	1,787	1,592
Other payables	303	375
Total	**4,860**	**4,361**

Trade payables amounted to €2,394 million, representing a decrease of €376 million compared with December 31, 2016.
Deferred income and advances of €1,592 million (€1,787 million at December 31, 2016), consisted mainly of adjustments to revenues from long-term contracts of €1,007 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 €585 million (€736 million at December 31, 2016).
Trade and other payables to related parties are shown in Note 47 'Transactions with related parties'.

Other payables of €375 million were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Payables to:		
- employees	150	178
- national insurance/social security contributions	63	44
- insurance companies	4	3
- consultants and professionals	4	3
- Board Directors and Statutory Auditors	1	-
Other payables	81	147
Total	**303**	**375**

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.
For details on amounts relating to completed projects in Algeria, see Note 51 'Additional information: Algeria'.

19 Income tax payables

Income tax payables amounted to €84 million (€96 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Italian tax authorities	-	16
Foreign tax authorities	96	68
Total	**96**	**84**

20 Other current tax payables

Other current tax payables amounted to €215 million (€265 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Italian tax authorities	13	-
Foreign tax authorities	252	215
Total	**265**	**215**

21 Other current liabilities

Other current liabilities amounted to €74 million (€244 million at December 31, 2016) and were as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Fair value on derivatives financial instruments	197	27
Other liabilities	47	47
Total	**244**	**74**

The fair value of derivative financial instruments is commented on Note 27 'Derivative financial instruments'.
Other liabilities amounted to €47 million (€47 million at December 31, 2016).
Other liabilities to related parties are shown in Note 47 'Transactions with related parties'.

NON-CURRENT LIABILITIES

22 Long-term debt and current portion of long-term debt

Long-term debt, including the current portion of long-term debt, amounted to €3,237 million (€3,248 million at December 31, 2016) and was as follows:

	Dec. 31, 2016			June 30, 2017		
(€ million)	Short-term maturity	Long-term maturity	Total	Short-term maturity	Long-term maturity	Total
Banks	35	2,193	2,228	216	1,495	1,711
Ordinary bonds	9	993	1,002	21	1,492	1,513
Other financial institutions	10	8	18	10	3	13
Total	**54**	**3,194**	**3,248**	**247**	**2,990**	**3,237**

Long-term debt is shown below by year of maturity:

(€ million)

Type	Maturity range	2018	2019	2020	2021	After	Total
Banks	2018-2027	196	747	399	47	106	1,495
Ordinary bonds	2021-2023	-	-	-	497	995	1,492
Other financial institutions	2018	3	-	-	-	-	3
Total		**199**	**747**	**399**	**544**	**1,101**	**2,990**

The long-term portion of long-term debt amounted to €2,990 million, down €204 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)

			Dec. 31, 2016			June 30, 2017		
				Interest rate%			Interest rate%	
Issuing institution	Currency	Maturity	Amount	from	to	Amount	from	to
Third parties	Euro	2017-2025	3,246	1.31	4.10	3,237	0.90	4.10
Third parties	Brazilian Real	2017	2	13.50	13.50	-	-	-
Total			**3,248**			**3,237**		

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 €3,269 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	0.00-3.65
US Dollar	-	-

The market value of listed financial instruments was calculated using the stock price at June 30, 2017.
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.
Long-term debt to related parties is shown in Note 47 'Transactions with related parties'.

Analyses of net borrowings

Net borrowings indicated in 'Financial and economic results' of the 'Operating and Financial Review' are shown below:

	Dec. 31, 2016			June 30, 2017		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	1,892	-	1,892	1,811	-	1,811
B. Available-for-sale securities	55	-	55	55	-	55
C. Liquidity (A+B)	**1,947**	**-**	**1,947**	**1,866**	**-**	**1,866**
D. Financing receivables	**3**	**-**	**3**	**1**	**-**	**1**
E. Short-term bank debt	144	-	144	119	-	119
F. Long-term bank debt	35	2,193	2,228	216	1,495	1,711
G. Short-term related party debt	-	-	-	-	-	-
H. Ordinary bond	9	993	1,002	21	1,492	1,513
I. Long-term related party debt	-	-	-	-	-	-
L. Other short-term debt	8	-	8	15	-	15
M. Other long-term debt	10	8	18	10	3	13
N. Total borrowings (E+F+G+H+I+L+M)	**206**	**3,194**	**3,400**	**381**	**2,990**	**3,371**
O. Net financial position pursuant to Consob communication No. DEM/6064293/2006 (N-C-D)	**(1,744)**	**3,194**	**1,450**	**(1,486)**	**2,990**	**1,504**
P. Non-current financing receivables	**-**	**-**	**-**	**-**	**-**	**-**
Q. Net borrowings (O-P)	**(1,744)**	**3,194**	**1,450**	**(1,486)**	**2,990**	**1,504**

Net borrowings include a liability relating to the interest rate swap but do not include the fair value of derivatives indicated in Note 11 'Other current assets', Note 16 'Other non-current assets', Note 21 'Other current liabilities' and Note 26 'Other non-current liabilities'.
Cash and cash equivalents included €86 million deposited in accounts that are frozen or are time deposits, as indicated in Note 5 'Cash and cash equivalents'.
The change compared to the balance at December 31, 2016, amounting to €54 million, is mainly due to the cash flow generated during the year.

23 Provisions for contingencies

Provisions for contingencies of €269 million (€268 million at December 31, 2016) consisted of the following:

(€ million)	Opening balance	Additions	Deductions	Other changes	Closing balance
Dec. 31, 2016					
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
Total	**238**	**152**	**(111)**	**(11)**	**268**
June 30, 2017					
Provisions for taxes	40	-	-	(1)	39
Provisions for contractual penalties and disputes	92	18	(17)	(3)	90
Provisions for losses of investments	2	-	-	-	2
Provision for contractual expenses and losses on long-term contracts	58	21	(10)	(2)	67
Provisions for redundancy incentives	-	18	-	-	18
Other	76	29	(50)	(2)	53
Total	**268**	**86**	**(77)**	**(8)**	**269**

The **provisions for taxes** amounted to €39 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 €90 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 €67 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 €18 million and refers to an external subsidiary.
Other provisions amounted to €53 million.
For details on amounts relating to completed projects in Algeria, see Note 51 'Additional information: Algeria'.

24 Provisions for employee benefits

Provisions for employee benefits at June 30, 2017 amounted to €206 million (€206 million at December 31, 2016).

25 Deferred tax liabilities

Deferred tax liabilities of €34 million (€59 million at December 31, 2016) are shown net of offsettable deferred tax assets of €168 million.

(€ million)	Dec. 31, 2016	Additions (Deductions)	Currency translation differences	Other changes	June 30, 2017
Deferred tax liabilities	59	(52)	(6)	33	34
Total	**59**	**(52)**	**(6)**	**33**	**34**

'Other changes', which amounted to positive €33 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €6 million); (ii) the positive tax effects (€27 million) of fair value changes of derivatives designated as cash flow hedges reported in equity.
A breakdown of deferred tax assets is provided in Note 15 'Deferred tax assets'.

26 Other non-current liabilities

During the first half of 2017 there were no other non-current liabilities (€3 million at December 31, 2016):

(€ million)	Dec. 31, 2016	June 30, 2017
Fair value on derivatives financial instruments	3	-
Trade and other payables	-	-
Total	**3**	**-**

The fair value of derivative financial instruments is commented on Note 27 'Derivative financial instruments'.

27 Derivative financial instruments

	Dec. 31, 2016		June 30, 2017	
(€ million)	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Derivative contracts qualified for hedge accounting				
Interest rate contracts (Spot component)				
- purchase	-	3	-	2
- sale	-	-	-	-
Forward currency contracts (Spot component)				
- purchase	10	4	1	8
- sale	1	96	67	(1)
Forward currency contracts (Forward component)				
- purchase	3	3	-	2
- sale	-	19	(12)	2
Forward commodity contracts (Forward component)				
- purchase	1	-	-	-
- sale	-	-	-	-
Total derivative contracts qualified for hedge accounting	**15**	**125**	**56**	**13**
Derivative contracts not qualified for hedge accounting				
Forward currency contracts (Spot component)				
- purchase	11	7	2	16
- sale	4	60	34	(1)
Forward currency contracts (Forward component)				
- purchase	2	-	-	(2)
- sale	-	11	(4)	3
Forward commodity contracts (Forward component)				
- purchase	-	-	-	-
- sale	-	-	-	-
Total derivative contracts not qualified for hedge accounting	**17**	**78**	**32**	**16**
Total derivative contracts	**32**	**203**	**88**	**29**
Of which:				
- current	30	197	86	27
- non-current (including IRS, Note 22 'Long-term debt and current portion of long-term debt')	2	6	2	2

The derivative contracts fair value hierarchy is level 2.
Purchase and sale commitments on derivative contracts are detailed as follows:

	Dec. 31, 2016		June 30, 2017	
(€ million)	Assets	Liabilities	Assets	Liabilities
Purchase commitments				
Derivative contracts qualified for hedge accounting:				
- interest rate contracts	-	1,450	-	1,350
- currency contracts	292	670	55	563
- commodity contracts	6	-	6	-
Derivative contracts not qualified for hedge accounting:				
- currency contracts	389	334	73	788
	687	**2,454**	**134**	**2,701**
Sale commitments				
Derivative contracts qualified for hedge accounting:				
- currency contracts	69	1,963	1.349	100
Derivative contracts not qualified for hedge accounting:				
- currency contracts	348	1,929	1.283	133
	417	**3,892**	**2.632**	**233**

The fair value of derivative financial 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 outrights and currency swaps) was determined by comparing the net present value at contractual conditions of forward contracts outstanding at June 30, 2017 with their present value recalculated at period-end market conditions. The model used is the Net Present Value model, which is based on the forward contract exchange rate, the period-end exchange rate and the respective forward interest rate curves.
A liability of €2 million (€3 million at December 31, 2016) relating to the fair value of an interest rate swap has been recorded under Note 22 'Long-term debt'. The fair value of interest rate swaps was determined by comparing the net present value at contractual conditions of swaps outstanding at June 30, 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 outrights and currency swaps).
The cash flows and the income statement impact of hedged highly probably forecast transactions at June 30, 2017 are expected to occur up until 2018.
During the first half of 2017, there were no significant cases of hedged items being no longer considered highly probable.
The positive fair value of derivatives qualified for hedge accounting at June 30, 2017 totalled €56 million (€15 million at December 31, 2016). The spot component of these derivatives of €68 million (€11 million at December 31, 2016) was deferred in a hedging reserve in equity (€69 million; €10 million at December 31, 2016) and recorded as finance income and expense (-€1 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 (-€12 million; €3 million at December 31, 2016).
The negative fair value of derivative qualified for hedge accounting at June 30, 2017, analysed in Note 21 'Other current liabilities' was €13 million (€125 million at December 31, 2016). The spot component of these derivatives of €7 million was deferred in a hedging reserve in equity (€10 million; €93 million at December 31, 2016) and recorded as finance income and expense -€3 million (€10 million at December 31, 2016). The forward component was recognised as finance income and expense €4 million (€22 million at December 31, 2016).
During the first half of 2017, operating revenues and expenses were adjusted by a net negative amount of €98 million to reflect the effects of hedging.

SHAREHOLDERS' EQUITY

28 Non-controlling interests

Non-controlling interests at June 30, 2017 amounted to €28 million (€19 million at December 31, 2016).

29 Saipem's shareholders' equity

Saipem's shareholders' equity at June 30, 2017 amounted to €4,817 million (€4,866 million at December 31, 2016) and was as follows:

(€ million)	Dec. 31, 2016	June 30, 2017
Share capital	2,191	2,191
Share premium reserve	1,750	1,049
Legal reserve	88	88
Cash flow hedge reserve	(182)	(15)
Cumulative currency translation differences	32	(90)
Employee defined benefits reserve	(20)	(20)
Other	2	2
Retained earnings	3,161	1,791
Net profit (loss) for the year	(2,087)	(110)
Negative reserve for treasury shares in portfolio	(69)	(69)
Total	**4,866**	**4,817**

Saipem's shareholders' equity at June 30, 2017 includes distributable reserves of €1,582 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 (€31 million).

30 Share capital

At June 30, 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 1,010,966,827 are ordinary shares and 10,612 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 1,010,966,827 ordinary shares and 10,612 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.

31 Share premium reserve

At June 30, 2017, this amounted to €1,049 million, down €701 million compared to December 31, 2016 (€1,750 million) following the covering of the loss for Saipem's financial year 2016.

32 Other reserves

At June 30, 2017, 'Other reserves' amounted to negative €35 million (€80 million at December 31, 2016) and consisted of the following items:

(€ million)	Dec. 31, 2016	June 30, 2017
Legal reserve	88	88
Cash flow hedge reserve	(182)	(15)
Cumulative currency translation differences	32	(90)
Employee defined benefits reserve	(20)	(20)
Other	2	2
Total	**(80)**	**(35)**

Legal reserve

At June 30, 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.

Cash flow hedge reserve

This reserve showed a negative balance at period end of €15 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 June 30, 2017.
The cash flow hedge reserve is shown net of tax effects of €12 million (€63 million at December 31, 2016).

Cumulative currency translation differences

This reserve amounted to negative €90 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 June 30, 2017, it had a negative balance of €20 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 June 30, 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 27.5% for 2017 and at 24% starting in 2018.

33 Negative reserve for treasury shares in portfolio

The negative reserve amounts to €69 million (€69 million at December 31, 2016) and it includes the value of treasury shares for the implementation of stock grant plans for Group executives.
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 7,140,134 shares at June 30, 2017.

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	7,104,134	9.750	69,282	0.70
Purchases for 2017	-	-	-	-
Treasury shares held at June 30, 2017	**7,104,134**	**9.750**	**69,282**	**0.70**

As of June 30, 2017, the share capital amounted to €2,191,384,693. On the same day, the number of shares in circulations was 1,003,873,305.

34 Guarantees, commitments and risks

Guarantees

Guarantees amounted to €6,332 million (€7,110 million at December 31, 2016), and were as follows:

	Dec. 31, 2016			June 30, 2017		
(€ million)	Unsecured	Other guarantees	Total	Unsecured	Other guarantees	Total
Joint ventures and associates	202	54	256	207	54	261
Consolidated companies	183	1,334	1,517	150	1,125	1,275
Own	16	5,321	5,337	2	4,794	4,796
Total	**401**	**6,709**	**7,110**	**359**	**5,973**	**6,332**

Other guarantees issued for consolidated companies amounted to €1,125 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 47 'Transactions with related parties'.
For details on amounts relating to completed projects in Algeria, see Note 51 '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 €48,151 million (€48,354 million at December 31, 2016), including both work already performed and the relevant portion of the backlog of orders at June 30, 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

The main risks that the Company is facing and actively monitoring and managing are described in the 'Risk management' section included in the 'Operating and Financial Review'.

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 is looking into the contracts that are subject to investigation, and to this end has 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 initiative regarding competence 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, the 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 to 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 press 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 group 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 grouped together before a new panel appointed on December 30, 2016. Proceedings are ongoing and the next court date is set for September 11, 2017.
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 Algeria in 2010 proceedings were initiated regarding various matters and involving 19 parties investigated for various reasons (so-called 'Sonatrach 1 investigation'). 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 current 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 €78 million (amount calculated at the exchange rate obtaining at June 30, 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 therefor, the ruling of February 2, 2016 of the Court of Algiers was challenged: 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 of the fine of approximately €34,000 is suspended; and
- the unfreezing of the two banks accounts containing a total of about €78 million (amount calculated at the exchange rate obtained at June 30, 2017) is suspended. 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. No such civil action has so far been brought by Sonatrach, and neither has Sonatrach indicated the amount of compensation sought.

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.

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 collaborator 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 collaborator, 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 collaborator 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 ex collaborator 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 collaborator, 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 collaborator 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 collaborator of Saipem do Brasil – in which he committed himself to substantiate with evidence some of the statements made by him – ceased to exist. The Attorney General noted in particular that attempts to substantiate such statements had not been successful, therefore there were no more reasons to keep confidential the content of the statements contained in the said agreement. At the hearing on June 9, 2017, the depositions of the three defendants were obtained, among them the ones rendered by the former collaborator of Saipem do Brasil and by a former Petrobras official.
With regard to the theft of 100,000 Brazilian reais (approximately €26,000) in October 2011, Saipem do Brasil's former collaborator 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 employee 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 collaborator of Saipem do Brasil and the former Petrobras official charged in the same proceeding, while offering a reconstruction of facts partially different, reported that the possibility of some inappropriate payments was discussed with reference to certain contracts of Saipem do Brasil but that in any case no payment was made by the Saipem Group. The former Saipem do Brasil collaborator 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 audit that was concluded in 2016 was recently 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. On December 19, 2011, the grounds for the ruling were filed with the office of the clerk of the Court. 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 account of the complexity of the issues before it, on September 30, 2015 the Court of Cassation adjourned the hearing to November 10, 2015, upon which date it will make its final decision. 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 first court date for November 28, 2017.

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%), Tecnimont 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 referred the entitlement to such costs back to an arbitral tribunal, unless otherwise agreed by the parties.

On June 21, 2017, Fosmax notified Sofregaz, Tecnimont SpA and Saipem SA, of a request for arbitration, requesting that the aforementioned companies (as members of the STS) be condemned in full to pay the mise en régie costs as quantified above, with interests and legal fees.

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 favor of Fosmax.

Arbitration on 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 Petroleums 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 to date amount to a total the equivalent of approximately €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 approximately €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 the month of July 2016 and the respective post hearing briefs were filed on December 9, 2016. On June 15, 2017, an additional hearing was held to answer some of the questions of the Court. At the current moment, the issuing of the award is expected within the end of 2017.

Arbitration proceedings regarding 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 €161.2 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 reconventionelle) 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 October 10 to 14, 2016, the hearings were held before the Arbitration Tribunal. On February 28, 2017, the parties exchanged their post-hearing briefs. At the current moment, the issuing of the award is expected within the end of 2017.

Arbitration proceedings regarding 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 601,798,393, 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 approximately €33.84 million (a sum inclusive of the alleged increase of contractual margins and alleged moral damage, estimated at not less than €20 million).
On April 21, 2017, Saipem filed its reply. The hearings are expected to be held from December 11-15, 2017. At the current moment, the issuing of the award is expected within the end of 2018.

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 Chambre de Commerce Internationale 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 the related amounts at approximately USD 1.6 billion, Algerian dinars 54 billion, as well as €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 claimed of by Sonatrach are based on an alleged loss of profit (from alleged non-production), contractually excluded from liability 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. Sonatrach filed its Mémoire en reponse on June 30, 2017. The hearings are scheduled to be held at the end of 2018. At the current moment, the issuing of the award is expected within the end of 2019.

Court of Cassation - Consob Resolution No. 18949 of June 18, 2014 - Actions for damages

With the provision 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 which, as understood from the notification of a 'request to extend the preliminary investigation period', is investigating Saipem SpA with reference to the allegation of: (i) unlawful administrative acts as per Articles 5, 6, 7, 8 and 25-*ter*, lett. b) of Legislative Decree No. 231/2001, in relation to the crime referred to in Article 2622, paragraphs 1, 3 and 4 of the Italian Civil Code, allegedly committed from March 13, 2012 to October 24, 2012, as well as from March 13, 2013 to April 2013, with reference to the approval of the annual financial statements of 2011 and 2012 and the assets/liabilities situation of Saipem SpA as of September 30, 2012 and as of March 31, 2013; and (ii) unlawful administrative acts as per Articles 5, 6, 7, 8 and 25-*sexies* of Legislative Decree No. 231/2001, in relation to the crime referred to in Article 185 of the Consolidated Finance Act, allegedly committed from March 13, 2012 to October 24, 2012, as well as from March 13, 2013 to April 2013, with reference to the approval of the annual financial statements of 2011 and 2012 and the assets/liabilities situation of Saipem SpA as of September 30, 2012 and as of March 31, 2013. In addition to the company, in relation to the same allegations as those above, the managing directors of Saipem SpA in office on the date of approval of the annual financial statements as of December 31, 2011 and on the date of approval of the annual financial statements as of December 31, 2012, are also under investigation.
On July 28, 2014, Saipem SpA lodged an appeal at the Court of Appeal in Milan against the abovementioned decision of Consob 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.
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. In November 2015, a hearing was held for the first appearance of the parties. The proceedings are still in their initial stages.
Demands for out-of-court settlement and mediation proceedings: with regard to the alleged delays in providing information to the markets, over 2015 and during the first months of 2016, 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.
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. As at the date of approval of the Annual Report 2017 by the Board of Directors, none of the above-described out-of-court demands or mediation applications have formed the subject matter of legal action before the courts.

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 Engineering, Procurement and Construction contract No. SR-071 (the 'Contract'), prevalently on a reimbursable basis, relating to the project Dispute with Husky - Sunrise Energy Project in Canada 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. The hearing held on July 4, 2016 was adjourned pending the judge's ruling. At the time of writing, the judge has not yet ruled upon the matter.

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 Santos GLNG Pty Ltd, PAPL (Downstream) Pty Ltd and Total E&P Australia (jointly, 'Joint Venturers').
During the execution of the Project, Saipem accrued and presented to GLNG contractual claims initially quantified in about AU$ 570,668,821 based, among other things, on time extensions, reimbursement of costs connected with delays not ascribable to Saipem, variation orders and payment of contractually foreseen bonuses not paid by GLNG (the 'Contractual Claim'). However, this

Contractual Claim was entirely rejected by GLNG, which, in support of its refusal, alleged, among other things, that at the time the Contract was entered into, Saipem was not in possession of a licence foreseen as necessary by the Australian sector regulations (viz., the Queensland Building and Construction Commission Act 1991) for the execution of part of the work (i.e., the building works) under the Contract.
As a result of GLNG's last statement, Saipem: (i) replied that the fact that the Contract had been stipulated in violation of this regulation had determined its illegality, thus rendering it null and void (unenforceability) and, as a result, (ii) requested the payment of the sums owed on the basis of the so-called Quantum Meruit Claim, quantifying the economic benefit received by GLNG (net of the payments already made by the latter) in the sum of AU$ 770,899,601. However, this claim was also rejected by GLNG.
A negotiation phase was thus initiated between the parties based on the related contractually agreed procedure, but this did not lead to a successful outcome either.
Therefore on October 9, 2015, Saipem served a request for arbitration against GLNG, asking that they be ordered to pay: (i) the Quantum Meruit Claim; or alternatively, (ii) a fair figure for the contractual claim; (iii) in addition to interest and arbitration costs.
On November 6, 2015, the defendant GLNG rejected the claims of Saipem and made the following counterclaim: (a) compensation for damages for alleged defective works, with particular reference to the coating of the whole line (this counterclaim was not specifically quantified by GLNG which, however, maintains that the defects found can only be corrected at a cost that could exceed the contract price); (b) if the Quantum Meruit Claim were to be deemed valid, the reimbursement of that part of the contractually agreed price for which Saipem is not able to demonstrate the obligation to pay on a quantum meruit basis; (c) compensation for damages (not yet quantified) deriving from the breach of general warranties; (d) application of the liquidated damages set at AU$ 18 million; (e) compensation for alleged breaches of contract by Saipem set at about AU$ 23 million.
On May 6, 2016, Saipem served GLNG with its own Statement of Claim with which, among other things, the sums requested were reduced (in particular, the contractual claim is currently in the region of AU$ 254 million).
On October 7, 2016, GLNG served its own Statement of Defence and Counterclaim, in which it requested that Saipem's claim be rejected and it confirmed its own counterclaim consisting, among other things, of compensation for the damage deriving from the need to repair or replace the entire line, the quantification of which still appears, however, to be unclear. GLNG also requested that the issue of the Quantum Meruit Claim be handled and resolved prior to tackling that of the Contractual Claim. The relevant hearings were held in the month of February 2017. With a preliminary and partial decision, the Arbitration Panel rejected the Quantum Meruit Claim. Arbitration proceedings are continuing with regard to the other requests of Saipem and GLNG.
It is also reported that, on July 13, 2016, GLNG had served a new request for arbitration on Saipem SpA, concerning the validity of the Parent Company Guarantee issued by the latter (in its capacity as guarantor) to GLNG (in its capacity as beneficiary) when the Contract was awarded to Saipem (in its capacity as guarantee). In particular, GLNG had sustained that, if the Contract were to be considered null and void and, as a result, the quantum meruit based claim were to be considered valid by the arbitration panel, any sums that GLNG might be sentenced to pay to Saipem, should be reimbursed to GLNG by Saipem SpA inasmuch as, in the Parent Company Guarantee, Saipem would have been committed to holding GLNG harmless from and against any negative consequences deriving from the possible invalidity of the Contract. Saipem responded to this arbitration procedure: (i) rejecting the position of GLNG as unfounded; and (ii) accepting GLNG's request to bring the two arbitrations together. The rejection of the Quantum Meruit Claim will nullify the arbitration on the question of the validity of the Parent Company Guarantee issued by Saipem SpA.

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.

The parties are currently involved in the evidence phase of the proceedings.
By September 22, 2017, Saipem will have to file its own Reply Memorial by answering the Counter Memorial of SSTBV.

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, collected 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 €160,182,797.66 on the basis of the exchange rate at June 30, 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 on the basis of the arbitration calendar agreed by the parties, on April 28, 2017 Saipem filed its Statement of Claim. Kharafi's Statement of Defense and Counterclaim will be filed on October 16, 2017.

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 'Operating and Financial Review'.

35 Net sales from operations

Net sales from operations were as follows:

	First half	
(€ million)	2016	2017
Revenues from sales and services	4,264	4,614
Change in contract work in progress	349	(46)
Change in advance payments	662	22
Total	**5,275**	**4,590**

Net sales by geographical area were as follows:

	First half	
(€ million)	2016	2017
Italy	150	204
Rest of Europe	341	231
CIS	1,678	557
Middle East	1,065	1,535
Far East	284	315
North Africa	139	548
West Africa and Rest of Africa	1,066	887
Americas	552	313
Total	**5,275**	**4,590**

Information required by IAS 11 is provided by business sector in Note 46 '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 June 30, 2017, totalled €566 million, of which 84% 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 47 'Transactions with related parties'.

36 Other income and revenues

Other income and revenues were as follows:

(€ million)	First half 2016	2017
Gains on disposal of assets	-	2
Indemnities	9	-
Other income	10	3
Total	**19**	**5**

OPERATING EXPENSE

The following is a summary of the main components of operating expenses. The most significant variations are analysed in the 'Financial and economic results' section of the 'Operating and Financial Review'.

37 Purchases, services and other costs

Purchases, services and other costs included the following:

(€ million)	First half 2016	2017
Production costs - raw, ancillary and consumable materials and goods	1,019	1,136
Production costs - services	2,176	1,732
Operating leases and other	434	374
Net provisions for contingencies	(11)	(9)
Other expenses	119	19
less:		
- capitalised direct costs associated with self-constructed assets	(1)	(5)
- changes in inventories of raw, ancillary and consumable materials and goods	28	21
Total	**3,764**	**3,268**

Costs for services included agency fees of €1 million (less than €1 million in the first half of 2016).
Net provisions for contingencies are detailed in Note 23 'Provisions for contingencies'.
Purchase services and other costs to related parties are shown in Note 47 'Transactions with related parties'.

38 Payroll and related costs

Payroll and related costs were as follows:

(€ million)	First half 2016	2017
Payroll and related costs	950	856
less:		
- capitalised direct costs associated with self-conducted assets	(1)	(2)
Total	**949**	**854**

Payroll costs include net additions to provisions for redundancy incentives which amounted to €18 million, as commented in Note 23 'Provisions for contingencies'.

Stock-based compensation plans for Saipem senior managers

In order to create a system of incentives and loyalty among Group executives, Saipem SpA defined a Stock Grant Plan in 2016. At the date of the stock grant, the classification and the number of beneficiaries, the corresponding number of shares allocated and the subsequent fair value calculation are analysed in the prospectus below, taking into account the reverse stock split that took place in May 2017 and resolved at the Shareholders' Meeting on April 28, 2017, in order to render data consistent as at June 30, 2017:

	No. of managers	No. of shares	Share portion (%)	Unit fair value TSR (weight 50%)	Unit fair value NFP (weight 50%)	Weighted average unit fair value	Total fair value	Fair value 2016
Strategic Senior Managers (vesting period)	99	3,407,811	75	1,2	4,3	3,40	11,586,558	1,356,025
Strategic Senior Managers (co-investment period)		25	2,2	8,5				
Non-strategic Senior Managers	272	2,330,350	100	1,2	4,3	2,75	6,408,463	890,065
CEO	1	365,349	100	1,2	4,3	2,75	1,004,709	139,543
Total	**372**	**6,103,510**				**3,11**	**18,999,730**	**2,385,633**

The following table shows changes in the stock grant plans at June 30, 2017:

	2016			2017		
(€ million)	Number of shares	Average strike price (a)	Market price (b)	Number of shares	Average strike price (a)	Market price (b)
Options as of January 1 (c)	**-**	**-**	**-**	**6,095,210**		**32,914**
New options granted	6,103,510	-	26,001			
(Options exercised during the nine-month period)	-	-	-	-	-	-
(Options expiring during the nine-month period)	(8,300)	-	(45)	-	-	-
Options outstanding at the end of the period	**6,095,210**		**32,914**	**6,095,210**		**19,688**
Of which:						
- exercisable at the end of the period	-	-	-	-	-	-
- exercisable at the end of the vesting period	5,243,257	-	-	5,243,257	-	-
- exercisable at the end of the co-investment period	851,953	-	-	851,953	-	-

(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 grants outstanding at the beginning and end of the year is the price recorded at January 1 and December 31.
(c) Amounts shown consider the effect of the reverse stock split in 2017.

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.

Average number of employees

The average number of employees, by category, for all consolidated companies was as follows:

	First half	
(numero)	**2016**	**2017**
Senior managers	400	387
Junior managers	4,210	4,063
White collars	18,734	15,878
Blue collars	16,928	14,734
Seamen	302	283
Total	**40,574**	**35,345**

The average number of employees was calculated as the arithmetic mean of the number of employees at the beginning and end of the period. The average number of senior managers included managers employed and operating in foreign countries whose position was comparable to senior manager status.

39 Depreciation, amortisation and impairment

Depreciation, amortisation and impairment are detailed below:

	First half	
(€ million)	**2016**	**2017**
Depreciation and amortisation:		
- tangible assets	339	260
- intangible assets	5	4
Total depreciation and amortisation	**344**	**264**
Impairment:		
- tangible assets	1	85
- intangible assets	-	-
Total impairment	**1**	**85**
Total	**345**	**349**

40 Other operating income (expense)

The income statement effects of the change in fair value of derivatives that do not meet the formal requirements to qualify as hedging instruments under IFRS are recognised in 'Other operating income and expenses'. As of June 30, 2017, there is no other operating income (expense) (income of €1 million in the first half of 2016).

41 Finance income (expense)

Finance income (expense) was as follows:

	First half	
(€ million)	**2016**	**2017**
Finance income (expense)		
Finance income	636	129
Finance expense	(676)	(316)
Total	**(40)**	**(187)**
Derivative financial instruments	(30)	72
Total	**(70)**	**(115)**

Net finance income and expense was as follows:

	First half	
(€ million)	**2016**	**2017**
Exchange gains (losses)	**11**	**(138)**
Exchange gains	627	124
Exchange losses	(616)	(262)
Finance income (expense) related to net borrowings	**(48)**	**(48)**
Interest from banks and other financial institutions	7	4
Interest and other expense due to banks and other financial institutions	(55)	(52)
Other finance income (expense)	**(3)**	**(1)**
Other finance income from third parties	2	1
Other finance expense	(3)	(1)
Finance income (expense) on defined benefit plans	(2)	(1)
Total finance income (expense)	**(40)**	**(187)**

Gains (losses) on derivatives consisted of the following:

	First half	
(€ million)	**2016**	**2017**
Exchange rate derivatives	(29)	73
Interest rate derivatives	(1)	(1)
Total	**(30)**	**72**

Income from derivatives of €72 million (expenses of €30 million in the first half of 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 47 'Transactions with related parties'.

42 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 on the following:

	First half	
(€ million)	**2016**	**2017**
Share of profit of investments accounted for using the equity method	13	10
Share of loss of investments accounted for using the equity method	(2)	(8)
Net additions to (deductions from) the provisions for losses related to investments accounted for using the equity method	(2)	-
Total	**9**	**2**

The share of profit (loss) of investments accounted for using the equity method is commented on in Note 14 'Investments'.

Other income (expense) from investments

There was no other income (expense) from investments in the reporting period.

43 Income taxes

Income taxes consisted of the following:

	First half	
(€ million)	**2016**	**2017**
Current taxes:		
- Italian subsidiaries	11	91
- foreign subsidiaries	121	81
Net deferred taxes:		
- Italian subsidiaries	(137)	(17)
- foreign subsidiaries	125	(45)
Total	**120**	**110**

	First half	
(€ million)	**2016**	**2017**
Income taxes recognised in consolidated income statement	120	110
Income tax related to items of other comprehensive income that may be reclassified to profit or loss	38	51
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	-	-
Tax on total comprehensive income	**158**	**161**

44 Non-controlling interests

Profit attributable to non-controlling interests amounted to €11 million (€3 million in the first half of 2016).

45 Earnings (losses) per share

Basic earnings (losses) per ordinary share are calculated by dividing net profit (loss) for the period attributable to Saipem's shareholders by the weighted average of ordinary shares outstanding during the period, 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 at 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 1,010,966,827 and the number of savings shares is 10,612.
Data from 2016 was restated in order to render it consistent with data stated at June 30, 2017.

The weighted average of shares outstanding used for the calculation of the diluted earnings (losses) per share was 1,003,860,693 in 2017 and 707,253,356 restated in 2016.
Reconciliation of the average number of shares used for the calculation of basic and diluted earnings per share is as follows:

		June 30, 2016	June 30, 2016 restated	June 30, 2017
Average number of shares used for the calculation of the basic earnings (losses) per share		**7,072,533,556**	**707,253,356**	**1,003,860,693**
Number of potential shares following stock grant plans		-	-	6,095,210
Number of savings shares convertible into ordinary shares		106,126	10,612	10,612
Weighted average number of outstanding shares for diluted earnings (losses) per share		**7,072,639,682**	**707,263,968**	**1,009,966,515**
Earnings (losses) attributable to Saipem	(€ million)	53	53	(110)
Basic earnings (losses) per share	(€ per share)	0.007	0.075	(0.11)
Diluted earnings (losses) per share	(€ per share)	0.007	0.075	(0.11)

46 Segment information, geographical information and construction contracts

Segment information

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Floaters	Not allocated	Total
First half 2016							
Net sales from operations	3,223	1,631	679	349	940	-	6,822
less: intra-group sales	689	198	192	59	409	-	1,547
Net sales to customers	**2,534**	**1,433**	**487**	**290**	**531**	**-**	**5,275**
Operating result	217	2	126	(94)	(14)	-	237
Depreciation, amortisation and impairment	101	19	111	90	24	-	345
Net income (expense) from investments	7	2	-	-	-	-	9
Capital expenditure	51	4	18	24	-	-	97
Tangible and intangible assets	3,053	519	2,955	984	264	-	7,775
Investments [a]	118	17	-	6	-	-	141
Current assets	2,407	2,086	507	409	120	2,332	7,861
Current liabilities	1,895	1,786	193	164	624	658	5,320
Provisions for contingencies [a]	41	98	1	3	8	42	193
First half 2017							
Net sales from operations	2,595	1,790	514	305	593	-	5,797
less: intra-group sales	(575)	(128)	(191)	(58)	(255)	-	(1,207)
Net sales to customers	**2,020**	**1,662**	**323**	**247**	**338**	**-**	**4,590**
Operating result	172	23	20	(15)	(76)	-	124
Depreciation, amortisation and impairment	88	15	124	67	55	-	349
Net income (expense) from investments	9	(7)	-	-	-	-	2
Capital expenditure	41	2	63	41	-	-	147
Tangible and intangible assets	2,657	425	1,664	775	134	-	5,655
Investments [a]	130	12	-	6	-	-	148
Current assets	1,855	2,282	288	291	217	2,330	7,263
Current liabilities	1,872	1,753	133	135	559	663	5,115
Provisions for contingencies [a]	114	81	4	2	26	42	269

(a) See the section 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 68.

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 35 'Net sales from operations'.

(€ million)	Italy	Rest of Europe	CIS	Rest of Asia	North Africa	West Africa	Americas	Unallocated	Total
First half 2016									
Capital expenditure	5	1	2	22	-	-	4	63	97
Tangible and intangible assets	90	25	239	947	-	113	704	5,657	7,775
Identifiable assets (current)	1,043	851	1,005	1,680	281	849	1,216	936	7,861
First half 2017									
Capital expenditure	5	1	6	33	-	-	7	95	147
Tangible and intangible assets	72	22	126	685	1	49	379	4,321	5,655
Identifiable assets (current)	1,467	569	543	2,193	480	811	520	680	7,263

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.

	First half	
(€ million)	**2016**	**2017**
Construction contracts - assets	2,095	1,738
Construction contracts - liabilities	(933)	(1,074)
Construction contracts - net	**1,162**	**664**
Costs and margins (completion percentage)	5,461	5,269
Progress billings	(4,264)	(4,614)
Change in provision for future losses	(35)	9
Construction contracts - net	**1,162**	**664**

47 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.
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 were as follows:

(€ million)

	Dec. 31, 2016			First half 2016			
				Expenses		Revenues	
Name	Trade and other receivables	Trade and other payables	Guarantees	Goods	Services (1)	Goods and services	Other
Unconsolidated subsidiaries							
SAGIO - Companhia Angolana de Gestão de Instalaçao Offshore Lda	-	1	-	-	1	-	-
Total unconsolidated subsidiaries	**-**	**1**	**-**	**-**	**1**	**-**	**-**
Associated and jointly-controlled companies							
ASG Scarl	-	5	-	-	(1)	-	-
CEPAV (Consorzio Eni per l'Alta velocità) Due	44	83	131	-	35	86	-
CEPAV (Consorzio Eni per l'Alta velocità) Uno	6	6	121	-	1	-	-
Charville - Consultores e Servicos, Lda	1	-	-	-	-	1	-
CSFLNG Netherlands BV	-	-	-	-	-	6	-
Gruppo Rosetti Marino SpA	-	1	-	2	-	-	-
KWANDA Suporte Logistico Lda	64	10	-	-	1	2	-
Petromar Lda	93	16	4	-	1	12	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	6	8	-	-	30	1	-
Southern Gas Constructors Ltd	1	-	-	-	-	-	-
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	1	-	-	-	-	-	-
TMBYS SAS	4	-	-	-	-	-	-
TSGI Mühendislik İnşaat Ltd Şirketi	8	-	-	-	-	-	-
Xodus Subsea Ltd	3	2	-	-	2	-	-
Others (for transactions not exceeding €500 thousand)	-	1	-	-	-	2	-
Total associated and jointly-controlled companies	**231**	**132**	**256**	**2**	**69**	**110**	**-**
Companies controlled by Eni and CDP Equity SpA							
Eni SpA	52	3	2,081	-	1	9	-
Eni SpA Downstream Gas Division	-	-	-	-	1	-	-
Eni SpA Exploration & Production Division	9	-	2	-	-	32	-
Eni SpA Gas & Power Division	1	1	-	-	-	-	-
Eni SpA Refining & Marketing Division	2	-	11	1	-	2	-
Agip Kazakhstan North Caspian	-	-	20	-	-	-	-
Agip Oil Ecuador BV	2	-	1	-	-	1	-
Banque Eni SA	-	-	-	-	1	-	-
Eni Adfin SpA	-	2	-	-	2	-	-
Eni Angola SpA	57	-	57	-	-	121	-
Eni Congo SA	23	3	6	-	1	39	-
Eni Corporate University SpA	-	1	-	-	1	-	-
Eni East Sepinggan Ltd	25	-	1	-	-	-	-
Eni Insurance Ltd	7	8	-	-	5	-	-
Eni Lasmo PLC	10	3	-	-	-	(4)	-
Eni Muara Bakau BV	21	10	66	-	-	116	-
Eni Norge AS	15	-	-	-	-	86	-
EniServizi SpA	-	5	-	-	14	-	-
Eni Turkmenistan Ltd	2	-	-	-	-	(1)	-
First Calgary Petroleum LP	-	-	100	-	-	-	-
Ieoc Exploration BV	-	-	1	-	-	-	-
Ieoc Production BV	2	-	-	-	-	42	-
Serfactoring SpA	-	1	-	-	-	-	-
Syndial SpA	-	-	3	-	-	-	-
Tecnomare SpA	-	-	-	-	-	1	-
Versalis France SAS	-	-	-	-	-	1	-
Versalis SpA	34	-	43	-	-	11	-
Others (for transactions not exceeding €500 thousand)	2	-	-	-	-	1	-
Total companies controlled by Eni and CDP Equity SpA	**264**	**37**	**2,392**	**1**	**26**	**457**	**-**

Trade and other transactions (continued)

(€ million)

Name	Dec. 31, 2016			First half 2016			
				Expenses		Revenues	
	Trade and other receivables	Trade and other payables	Guarantees	Goods	Services (1)	Goods and services	Other
Total companies controlled by Eni and CDP Equity SpA	**264**	**37**	**2,392**	**1**	**26**	**457**	**-**
Eni and CDP Equity SpA associated and jointly-controlled companies							
Eni East Africa SpA	1	-	-	-	-	1	-
Eusebi Impianti Srl	-	-	-	-	5	-	-
Greenstream BV	3	-	-	-	-	-	-
InAgip doo	-	-	1	-	-	-	-
Mellitah Oil&Gas BV	1	-	30	-	-	-	-
Petrobel Belayim Petroleum Co	130	158	-	-	-	55	-
PetroJunìn SA	-	-	2	-	-	-	-
Pharaonic Petroleum Co	-	-	6	-	-	-	-
Valvitalia SpA	-	-	-	1	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
Total Eni and CDP Equity SpA associated and jointly-controlled companies	**135**	**158**	**39**	**1**	**5**	**56**	**-**
Total Eni and CDP Equity SpA companies	**399**	**195**	**2,431**	**2**	**31**	**513**	**-**
Companies controlled or owned by the State	**30**	**48**	**84**	**-**	**1**	**13**	**-**
Pension funds: FOPDIRE	**-**	**-**	**-**	**-**	**1**	**-**	**-**
Total transactions with related parties	**660**	**376**	**2,771**	**4**	**103**	**636**	**-**
Overall total	**3,020**	**4,860**	**7,110**	**1,019**	**2,729**	**5,275**	**19**
Incidence (%)	**21.95** (2)	**7.74**	**38.97**	**0.39**	**3.74** (3)	**12.06**	**-**

(1) The item 'Services' includes costs for services, costs for the use of third-party assets and other costs.
(2) Incidence includes receivables shown in the table 'Financial transactions'.
(3) Incidence is calculated net of pension funds.

Trade and other transactions as of June 30, 2017 consisted of the following:

(€ million)

Name	June 30, 2017			First half 2017			
				Expenses		Revenues	
	Trade and other receivables	Trade and other payables	Guarantees	Goods	Services (1)	Goods and services	Other
Unconsolidated subsidiaries							
SAGIO - Companhia Angolana de Gestão de Instalaçao Offshore Lda	-	1	-	-	1	-	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	-	-	-
Total unconsolidated subsidiaries	**1**	**1**	**-**	**-**	**1**	**-**	**-**
Associated and jointly-controlled companies							
ASG Scarl	-	5	-	-	-	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	12	13	139	-	7	53	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	3	3	119	-	-	-	-
Gruppo Rosetti Marino SpA	-	1	-	-	-	-	-
KWANDA Suporte Logistico Lda	52	11	-	-	1	1	-
Petromar Lda	53	1	3	-	-	7	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	7	9	-	-	4	-	-
Southern Gas Constructors Ltd	1	-	-	-	-	-	-
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	1	-	-	-	-	-	-
TMBYS SAS	4	-	-	-	-	-	-
TSGI Mühendislik İnşaat Ltd Şirketi	4	-	-	-	-	1	-
Xodus Subsea Ltd	3	2	-	-	-	-	-
Others (for transactions not exceeding €500 thousand)	-	1	-	-	-	-	-
Total associated and jointly-controlled companies	**140**	**46**	**261**	**-**	**12**	**62**	**-**

Trade and other transactions (continued):

(€ million)

	June 30, 2017			First half 2017			
				Expenses		Revenues	
Name	Trade and other receivables	Trade and other payables	Guarantees	Goods	Services [1]	Goods and services	Other
Total associated and jointly-controlled companies	**140**	**46**	**261**	**-**	**12**	**62**	**-**
Companies controlled by Eni and CDP Equity SpA							
Eni SpA	1	-	1,673	-	-	(1)	-
Eni SpA Exploration & Production Division	16	-	1	-	-	33	-
Eni SpA Gas & Power Division	1	1	-	-	1	-	-
Eni SpA Refining & Marketing Division	-	-	11	-	-	1	-
Agip Kazakhstan North Caspian	-	-	17	-	-	-	-
Agip Oil Ecuador BV	3	-	-	-	-	7	-
Eni Adfin SpA	-	3	-	-	4	-	-
Eni Angola SpA	34	-	21	-	-	127	-
Eni Congo SA	43	3	6	-	-	45	-
Eni East Sepinggan Ltd	-	-	-	-	-	1	-
Eni Insurance Ltd	-	-	-	-	(1)	-	-
Eni Lasmo PLC	2	-	-	-	-	-	-
Eni Muara Bakau BV	27	3	36	-	-	51	-
Eni Norge AS	30	-	-	-	-	72	-
EniServizi SpA	-	3	-	-	15	-	-
First Calgary Petroleum LP	-	-	100	-	-	-	-
Ieoc Exploration BV	-	-	1	-	-	-	-
Serfactoring SpA	-	1	-	-	-	-	-
Syndial SpA	-	-	1	-	-	-	-
Tecnomare SpA	1	-	-	-	-	1	-
Versalis SpA	1	-	43	-	-	12	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	1	-	-
Total companies controlled by Eni and CDP Equity SpA	**159**	**14**	**1,910**	**-**	**20**	**349**	**-**
Eni and CDP Equity SpA associated and jointly-controlled companies							
Eni East Africa SpA	1	-	-	-	-	2	-
Greenstream BV	1	-	-	-	-	-	-
InAgip doo	-	-	1	-	-	-	-
Mellitah Oil&Gas BV	1	-	30	-	-	-	-
Petrobel Belayim Petroleum Co	200	93	253	-	-	613	-
PetroJunìn SA	-	-	2	-	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	1	-
Total Eni and CDP Equity SpA associated and jointly-controlled companies	**203**	**93**	**286**	**-**	**-**	**616**	**-**
Total Eni and CDP Equity SpA companies	**362**	**107**	**2,196**	**-**	**20**	**965**	**-**
Companies controlled or owned by the State	**15**	**-**	**79**	**-**	**-**	**15**	**-**
Total transactions with related parties	**518**	**154**	**2,536**	**-**	**33**	**1,042**	**-**
Overall total	**2,640**	**4,361**	**6,332**	**1,136**	**2,125**	**4,590**	**5**
Incidence (%)	**19.73** [2]	**3.53**	**40.05**	**-**	**1.55**	**22.70**	**-**

(1) The item 'Services' includes costs for services, costs for the use of third-party assets and other costs.
(2) Incidence includes receivables shown in the table 'Financial transactions'.

The figures shown in the tables refer to Note 7 'Trade and other receivables', Note 18 'Trade and other payables', Note 34 'Guarantees, commitments and risks', Note 35 'Net sales from operations', Note 36 'Other income and revenues' and Note 37 '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:

	Dec. 31, 2016		June 30, 2017	
(€ million)	Other assets	Other current liabilities	Other assets	Other current liabilities
Eni SpA	-	8	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	2	-	2	-
Total transactions with related parties	**2**	**8**	**2**	**-**
Overall total	**246**	**247**	**300**	**74**
Incidence (%)	**0.81**	**3.24**	**0.67**	**-**

Financial transactions

Financial transactions as of December 31, 2016 were as follows:

(€ million)

	Dec. 31, 2016				First half 2016		
Name	Cash and cash equivalents	Receivables (1)	Payables	Commitments	Expenses	Income	Derivative financial instruments
Eni SpA	-	-	-	-	(11)	4	(343)
Banque Eni SA	-	-	-	-	-	-	(10)
Eni Finance International SA	-	-	-	-	(13)	-	-
Serfactoring SpA		3			-	-	-
Total transactions with related parties	**-**	**3**	**-**	**-**	**(24)**	**4**	**(353)**

(1) Shown on the balance sheet under 'Trade and other receivables' (€3 million).

Financial transactions as of June 30, 2017 were as follows:

(€ million)

	June 30, 2017				First half 2017		
Name	Cash and cash equivalents	Receivables (1)	Payables	Commitments	Expenses	Income	Derivative financial instruments
Serfactoring SpA	-	3	-	-	-	-	-
Total transactions with related parties	**-**	**3**	**-**	**-**	**-**	**-**	**-**

(1) Shown on the balance sheet under 'Trade and other receivables' (€3 million).

The incidence of financial transactions and positions with related parties was as follows:

	Dec. 31, 2016			June 30, 2017		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Short-term debt	152	-	-	134	-	-
Long-term debt (including current portion)	3,248	-	-	3,237	-	-
Total	**3,400**	**-**	**-**	**3,371**	**-**	**-**

	First half 2016			First half 2017		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Finance income	636	4	0.63	129	-	-
Finance expense	(676)	(24)	3.55	(316)	-	-
Derivative financial instruments	(30)	(353)	1,176.67	72	-	-
Other operating income (expense)	1	-	-	-	-	-
Total	**(69)**	**(373)**		**(115)**	**-**	**-**

The main cash flows with related parties were as follows:

(€ million)	June 30, 2016	June 30, 2017
Revenues and other income	636	1,042
Costs and other expenses	(107)	(33)
Finance income (expenses) and derivatives	(373)	-
Change in trade receivables and payables	11	(80)
Net cash provided by operating activities	**167**	**929**
Change in financial receivables	3	-
Net cash flow from investments	**3**	**-**
Change in financial payables	(5,995)	-
Net cash from financing activities	**(5,995)**	**-**
Total cash flows with related parties	**(5,825)**	**929**

The incidence of cash flows with related parties was as follows:

	June 30, 2016			June 30, 2017		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Cash provided by operating activities	187	167	89.30	63	929	1,474.60
Cash used in investing activities	(66)	3	(4.55)	(147)	-	-
Cash flow from financing activities (*)	(2,953)	(5,995)	203.01	38	-	-

(*) 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 at June 30, 2017:

(€ million)	June 30, 2016	June 30, 2017
Net capital employed	(53)	(55)
Total assets	67	61
Total current assets	67	61
Total non-current assets	-	-
Total liabilities	66	61
Total current liabilities	66	61
Total non-current liabilities	-	-
Total revenues	7	4
Total operating expenses	(7)	(4)
Operating profit	-	-
Net profit (loss) for the period	-	-

48 Significant non-recurring events and operations

No significant non-recurring events or operations took place in the first half of 2017 or in the first half of 2016.

49 Transactions deriving from atypical or unusual transactions

No transactions deriving from atypical and/or unusual operations occurred in the first half of 2016 or the first half of 2017.

50 Events subsequent to period-end

Information on subsequent events is provided in the section 'Events subsequent to period-end' of the 'Operating and Financial Review'.

51 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 June 30, 2017:
- funds in two current accounts (ref. Note 5) amounting to the equivalent of €78 million are currently frozen;
- trade receivables (ref. Note 7) totalled €42 million, all past due and not impaired;
- work in progress (ref. Note 8) on projects completed amounted to €33 million;
- deferred income (ref. Note 18) amounts to €1 million;
- provisions for future losses (ref. Note 23) for projects completed amounted to €2 million;
- guarantees (ref. Note 34) on projects completed totalled €623 million.

52 Additional information: Consob inspection

On November 7, 2016 Consob – pursuant to Article 115, paragraph 1, letter c) of Italian Legislative Decree dated February 24, 1998, No. 58 – launched an inspection of Saipem SpA 'to gather documents and other information regarding:
- methods used to identify and determine write downs and impairments reported to the public on October 25, 2016 also with regard to the process used to prepare the Strategic Plan 2017-2020;
- the possible existence of any underlying circumstances for said write downs and impairments prior to the report made to the public'.

CERTIFICATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-*TER* OF CONSOB RESOLUTION NO. 11971 OF MAY 14, 1999 AND SUBSEQUENT AMENDMENTS

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 condensed consolidated interim financial statements as of June 30, 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 condensed consolidated interim financial statements as of June 30, 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 condensed consolidated interim financial statements at June 30, 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 position, 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 interim operating and financial review includes a reliable analysis of the material events occurred during the first half of 2017 and their impact on condensed financial statements, as well as a description of the main risks and uncertainties for the second half of the year. The interim operating and financial review also contains a reliable analysis of the disclosure on significant related-party transactions.

July 24, 2017

/signed/ Stefano Cao
Stefano Cao
CEO

/signed/ Mariano Avanzi
Mariano Avanzi
Manager responsible for the preparation
of financial reports of Saipem SpA

INDEPENDENT AUDITORS' REPORT

Building a better working world

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Review report on the condensed consolidated interim financial statements
(Translation from the original Italian text)

To the Shareholders of
Saipem S.p.A.

Introduction

We have reviewed the condensed consolidated interim financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the related notes of Saipem S.p.A. and its subsidiaries (the "Saipem Group") as of 30 June 2017. The Directors of Saipem S.p.A. are responsible for the preparation of the condensed consolidated interim financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Saipem Group as of June 30, 2017 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 1, 2017

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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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)

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