INTERIM CONSOLIDATED REPORT
AS OF JUNE 30, 2018

SAIPEM

Mission

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

Our values

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

Disclaimer

By their nature, forward-looking statements are subject to risk and uncertainty since they are dependent upon circumstances which should or are considered likely to occur in the future and are outside of the Company's control. These include, but are not limited to: monetary exchange and interest rate fluctuations, commodity price volatility, credit and liquidity risks, HSE risks, the levels of capital expenditure in the oil and gas industry and other sectors, political instability in areas where the Group operates, actions by competitors, success of commercial transactions, risks associated with the execution of projects (including ongoing investment projects), in addition to changes in stakeholders' expectations and other changes affecting business conditions.
Actual results could therefore differ materially from the forward-looking statements.
The financial reports contain in-depth analyses of some of the aforementioned risks.
Forward-looking statements are to be considered in the context of the date of their release. Saipem SpA is under no obligation to review, update or correct them subsequently, except where this is a mandatory requirement of the applicable legislation.
The forward-looking statements given herein are not intended to constitute an invitation to invest or to provide legal, accounting, tax or investment advice and should not be relied upon in that regard.

Countries in which Saipem operates

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

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

CIS
Azerbaijan, Georgia, Kazakhstan, Russia, Turkmenistan

AFRICA
Algeria, Angola, Congo, Egypt, Ghana, Libya, Morocco, Mozambique, 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, Vietnam

Board of Directors and auditors of Saipem SpA

BOARD OF DIRECTORS[1]
Chairman
Francesco Caio

Chief Executive Officer (CEO)
Stefano Cao

Directors
Maria Elena Cappello, Claudia Carloni,
Paolo Fumagalli, Federico Ferro-Luzzi, Ines Mazzilli,
Leone Pattofatto, Paul Schapira

BOARD OF STATUTORY AUDITORS[2]
Chairman
Mario Busso

Statutory Auditors
Giulia De Martino
Riccardo Perotta

Alternate Statutory Auditors
Francesca Michela Maurelli
Maria Francesca Talamonti

(1) Appointed by the Shareholders' Meeting on May 3, 2018, for 2018, 2019, and 2020 and in any case up to the date of the Shareholders Meeting to approve the financial statements on December 31, 2020.
(2) Appointed by the Shareholders' Meeting on April 28, 2017 for a three-year period and in any case up to the date of the Shareholders Meeting to approve the financial statements on December 31, 2019.

Independent Auditors

EY SpA

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Approved by the Board of Directors on July 24, 2018

INTERIM RESULTS

During the first half of 2018 the Board of Directors approved a new strategic orientation for the Company and the change of the organisational model.
In particular:
- the Offshore Engineering & Construction business was identified as the 'core' with the aim of maintaining and strengthening its leadership position, also through selective investments;
- the Onshore Engineering & Construction business will focus on completing turnaround, aimed at recovering margins, also by portfolio repositioning;
- for the Drilling business, both onshore and offshore, while continuing efforts to improve efficiency, strategic options will be evaluated, with a view to maximising value for the individual businesses.

In line with the above, changes were approved to the organisational structure aimed at completing divisionalisation process started in 2017 which will entail full autonomy of the individual Divisions, particularly in the areas of commercial, project execution, technology and Research and Development, business strategies, partnerships, etc. This process will be completed by the end of 2018. Following the adoption of the new strategic direction and the changes to the organisational structure, the impairment test procedure of Group Cash Generating Unit was updated accordingly.

During the first half of 2018, Saipem recorded positive operational performance, excellent in the Offshore Engineering & Construction sector.
Adjusted revenues amounted to €3,839 million, down by 16.4% due to a contraction in the Onshore and Offshore Engineering & Construction sector, as well as in the Offshore Drilling sectors.
The **adjusted EBITDA** amounted to €483 million (€524 million in the first half of 2017); this reduction is attributable mainly to fewer contracts for the fleet in the Offshore Drilling sector.
The **adjusted net result** amounted to €6 million, compared to €92 million in the first half of 2017; against a stable adjusted operating result, the improvement in financial expenses, due to lower exchange rate differences, was more than absorbed by significant loss from an equity accounted affiliate, deriving from the worsening of a contract under execution by a jointly controlled company, as well as a higher the tax rate and third-party results.
Net result, a loss of €323 million, unlike adjusted net profit, includes the following special items:
- write-downs of tangible and intangible assets following the impairment test of €256 million, mainly due to a reduction in prospective Offshore Drilling rates (beyond the period of the plan), as well as to a revised discount rate;
- write-downs and accruals, totalling €51 million, relating to some litigations pending for a long time on projects already completed, resulting from the periodic activity of legal monitoring of the overall litigations;
- reorganisational expenses of €22 million.

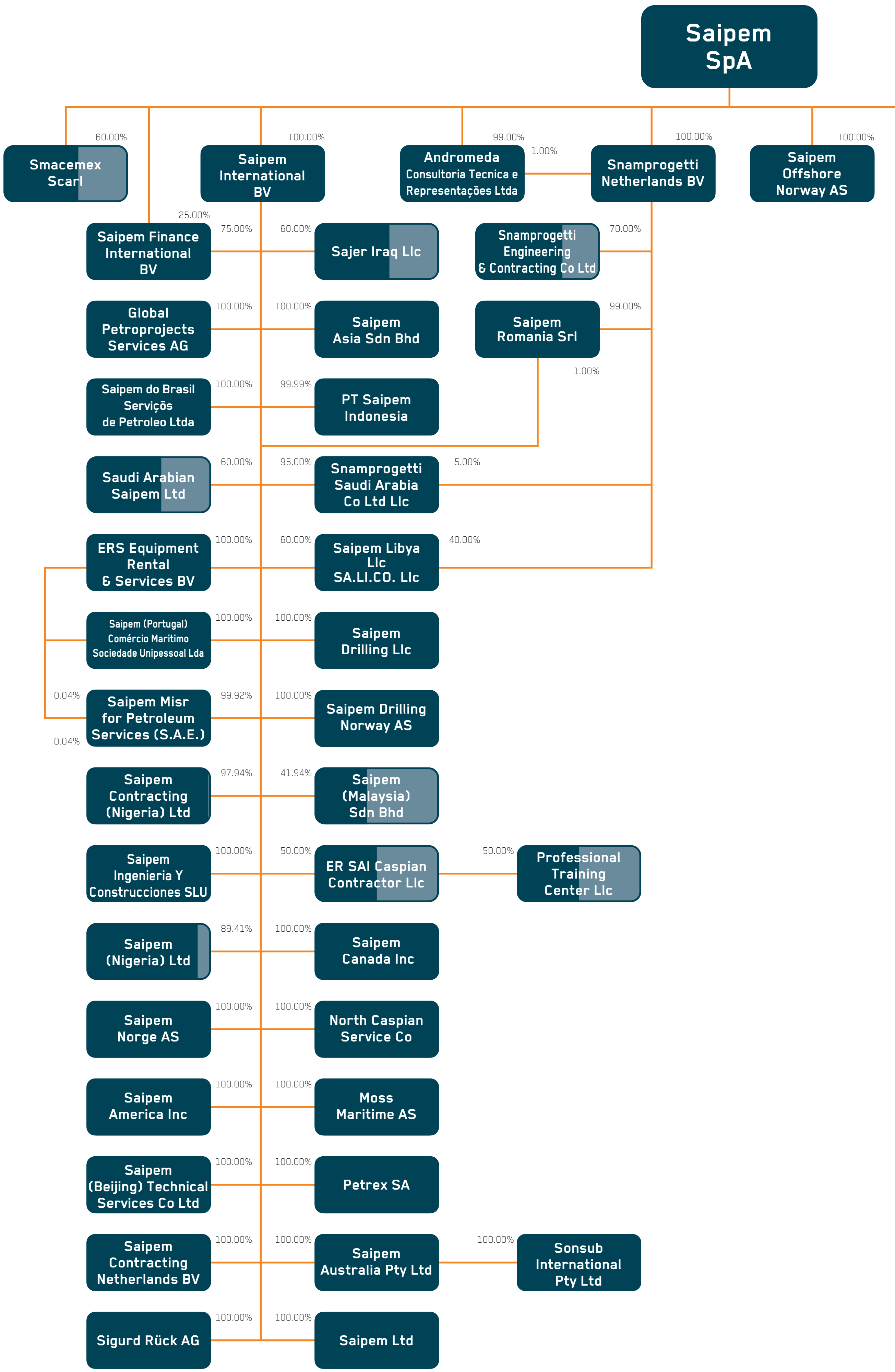
The Offshore Engineering & Construction sector accounted for 45.6% of revenues; the Onshore Engineering & Construction sector contributed 42.3% of revenues; the Offshore Drilling sector 5.7% of revenues and the Onshore Drilling sector generated 6.4% of revenues.

Net debt at June 30, 2018 amounted to €1,325 million, a slight increase on December 31, 2017 (€1,296 million). In the first half of the cash generated in the period and control over working capital and expenditure enable Saipem to absorb the outlay for the purchase of the Offshore Engineering & Construction vessel and payment of the debt owed to Sonatrach relating to the LPG settlement.
Capital expenditure in the first half of 2018, referring mainly to the purchase of the vessel Saipem Constellation, amounted to €313 million (€147 million in the first half of 2017).

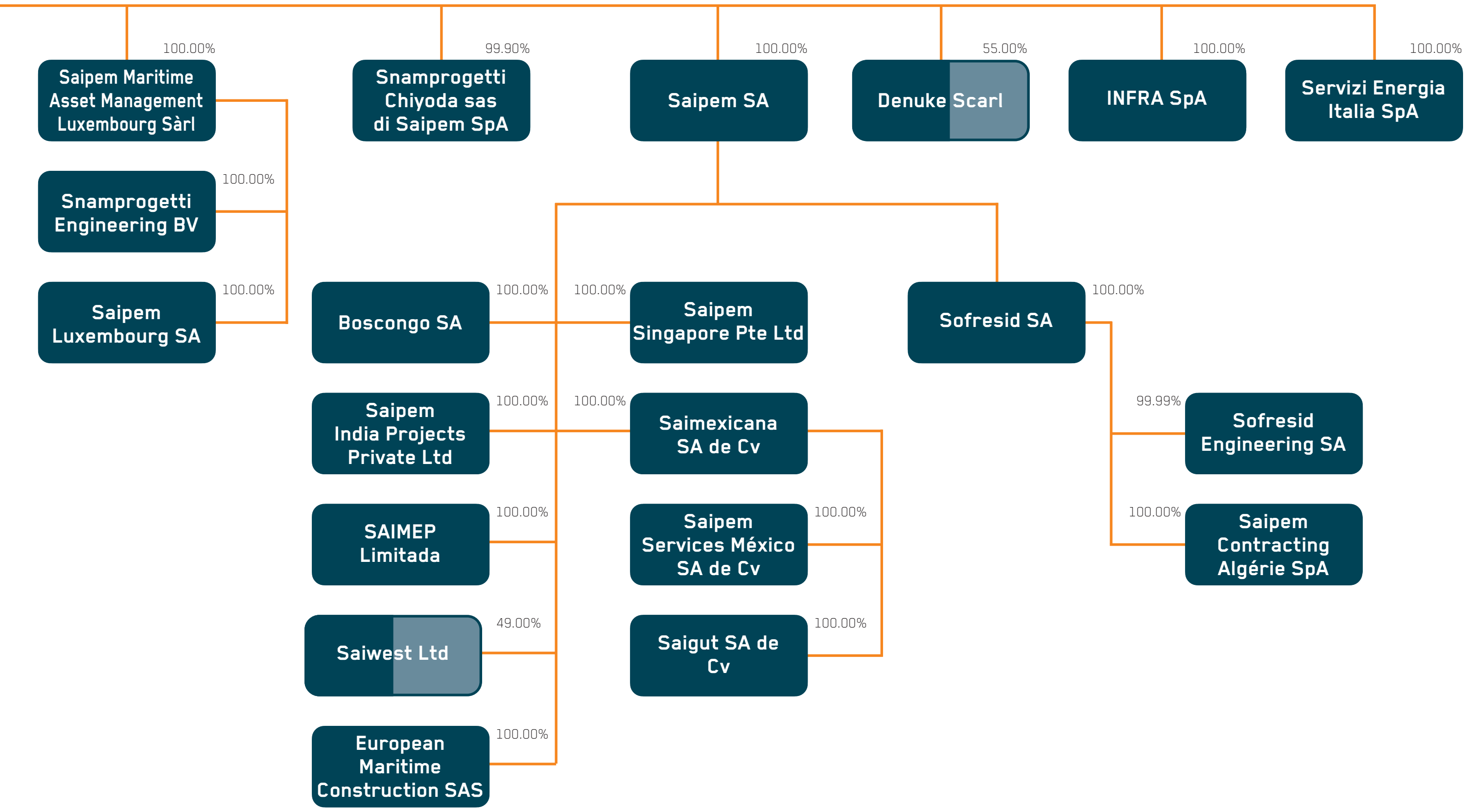
In the first half of 2018 Saipem was awarded new contracts amounting to €3,986 million (€2,088 million in the first half of 2017). The backlog at June 30, 2018 amounted to €12,580 million (€4,467 million in Offshore Engineering & Construction, €6,663 million in Onshore Engineering & Construction, €785 million in Offshore Drilling and €665 million in Onshore Drilling), of which €3,572 million is to be realised in 2018.

SHAREHOLDER STRUCTURE OF THE SAIPEM GROUP

(subsidiary companies)



Saipem SpA
60.00%
Smacemex Scarl
100.00%
Saipem International BV
99.00%
1.00%
Andromeda Consultoria Tecnica e Representações Ltda
100.00%
Snamprogetti Netherlands BV
100.00%
Saipem Offshore Norway AS
25.00%
75.00%
Saipem Finance International BV
60.00%
Sajer Iraq Llc
Snamprogetti Engineering & Contracting Co Ltd
70.00%
100.00%
Global Petroprojects Services AG
100.00%
Saipem Asia Sdn Bhd
Saipem Romania Srl
99.00%
1.00%
100.00%
Saipem do Brasil Serviçõs de Petroleo Ltda
99.99%
PT Saipem Indonesia
60.00%
Saudi Arabian Saipem Ltd
95.00%
Snamprogetti Saudi Arabia Co Ltd Llc
5.00%
100.00%
ERS Equipment Rental & Services BV
60.00%
Saipem Libya Llc SA.LI.CO. Llc
40.00%
100.00%
Saipem (Portugal) Comércio Maritimo Sociedade Unipessoal Lda
100.00%
Saipem Drilling Llc
0.04%
99.92%
Saipem Misr for Petroleum Services (S.A.E.)
0.04%
100.00%
Saipem Drilling Norway AS
97.94%
Saipem Contracting (Nigeria) Ltd
41.94%
Saipem (Malaysia) Sdn Bhd
100.00%
Saipem Ingenieria Y Construcciones SLU
50.00%
ER SAI Caspian Contractor Llc
50.00%
Professional Training Center Llc
89.41%
Saipem (Nigeria) Ltd
100.00%
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



The chart only shows subsidiaries

Operating and Financial Review

SAIPEM SpA SHARE PERFORMANCE

During the first half of 2018, the price of ordinary Saipem shares on the Italian Stock Exchange rose by approximately 2%. At the same time the American industry index, OSX, which includes service companies in the oil industry, rose by 3%, while the FTSE MIB index, the largest Italian securities list, recorded a decrease of 1%.
At the beginning of 2008 the share continued the upward trend which began in December 2017 in a generally positive climate for the energy industry. This was helped by the agreement between OPEC and Russia regarding the extension of production cuts to 2018 which determined the increased oil price. On January 24 the Saipem share reached its highest share price for the first 6 months at €4.14.
From the end of January, there has been a change in the climate on the main international stock markets, fuelled by uncertainties in the global economy and the US political scene. The Saipem share was dragged down to a low of €3.33 (on February 14).
In the following weeks the Saipem share was volatile, in line with the international markets and the price of oil.
At the beginning of March, when the 2017 annual results and the new targets for 2018 were published, it seemed as if share prices would rise, this hope was frustrated in the following days by fears regarding the timing of recovery of the Oil & Gas market, which brought the Saipem share to its lowest share price for the six months on April 9 to €3.10.

The phase of weakness of Saipem's share continued until the beginning of May when, following the publication of some positive reports by major financial analysts and the renewed climate of confidence on the prospects of the Oil Services sector, there was a sudden recovery of the share with important purchase volumes, which pushed the share price up to €4.01 on May 22.

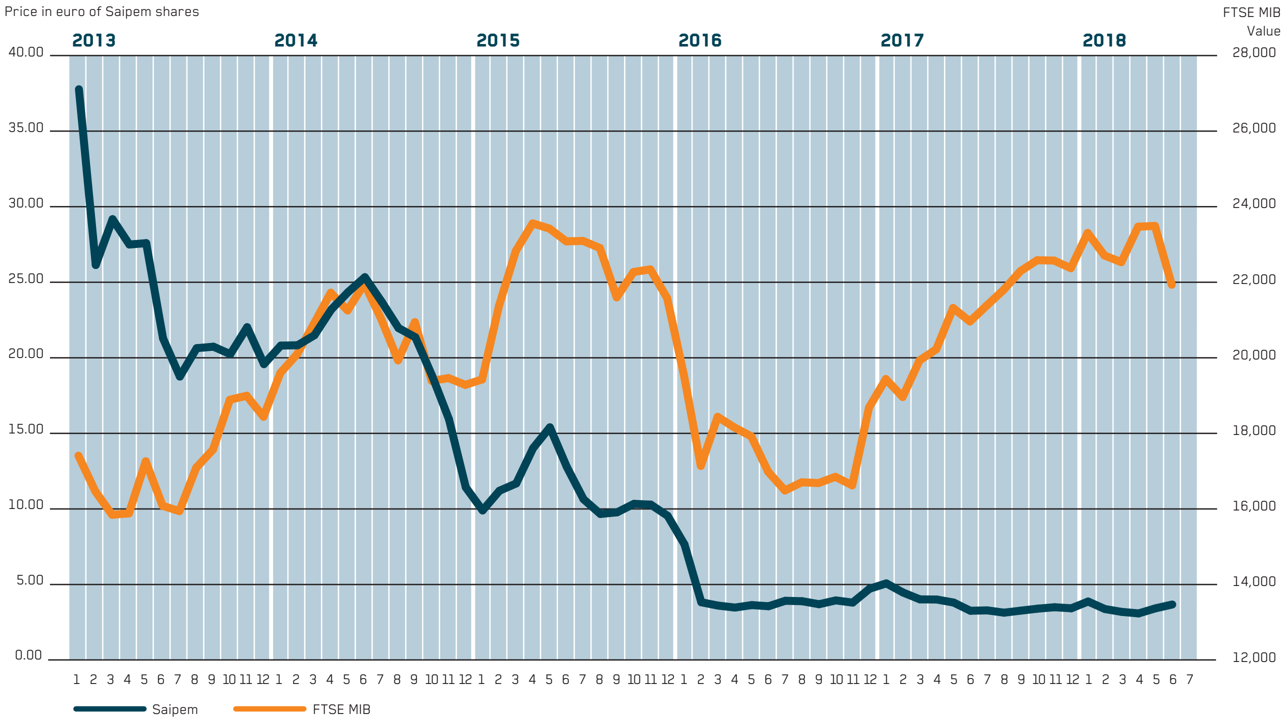
At the end of May, there was a reversal of the entire oil services sector with the Saipem stock, which stood at €3.56 on May 29, which then recovered to €3.91 on June 12, supported by the acquisition of three major contracts and despite the lacklustre performance of the Milan Stock Exchange caused by uncertainties in the Italian political scene.
The share price ended the first half of the year at €3.93, driven by a surge in the price of oil, which rose again due to a renewed convergence between OPEC countries, sanctions against Iran and instability in Libya.

Saipem's market capitalisation at the end of June was approximately €3.9 billion. In terms of share liquidity, shares traded during the first half of the year totalled approximately 1.4 billion (1.1 billion registered in the same period of 2017). The average number of shares traded daily for the period totalled 11 million (8.6 million in the first half of 2017). The value of shares traded amounted to €5.1 billion, compare to the €4.6 billion, recorded during the first half of the 2017.
As regards savings shares, which are convertible at par with ordinary shares, at the end of June 2018 there were 10,598.
Their value, due to scarce liquidity, did not change during the first half of the year, reaching a price of €40.0 at the beginning and end of the period.

Listings on the Milan Stock Exchange (€)	2014	2015	2016	2017	First half 2018
Ordinary shares:					
- maximum	26.29	16.06	9.17	5.65	4.14
- minimum	10.46	8.94	3.02	2.96	3.10
- average	20.88	11.33	4.23	3.83	3.57
- period-end	11.05	9.47	5.36	3.83	3.93
Savings shares:					
- maximum	128.74	110.71	62.00	60.00	41.00
- minimum	99.49	58.27	39.00	40.00	40.00
- average	113.96	96.28	57.17	46.13	40.16
- period-end	110.71	58.27	54.10	40.00	40.00

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

Saipem and FTSE MIB - Average monthly prices January 2013-July 2018



GLOSSARY

Financial terms

- **Adjusted EBIT** operating result net of special items.
- **Adjusted EBITDA** gross operating margin net of special items.
- **Beta** coefficient that defines the measure of the systematic risk of a financial asset, i.e. the trend of an asset's return to adapt in line with changes in the reference market. The beta is defined as the ratio between the probability of the expected return of a specific asset with the expected market return, and the variance of the market return.
- **CGU** Cash Generating Unit refers to, as part of the execution of the impairment test, the smallest identifiable group of assets that generates incoming and/or outgoing financial flows, deriving from the continuous use of assets, largely independent from incoming and/or outgoing financial flows generated by other assets or groups of assets.
- **EBIT** (earnings before interest and tax).
- **EBITDA** (earnings before interest, taxes, depreciation and amortisation).
- **Headroom** (Impairment Loss) positive (or negative) surplus of the recoverable amount of a CGU on the related carrying amount.
- **IFRS** International Financial Reporting Standards. Accounting standards issued by the IASB (International Accounting Standards Board) and adopted by the European Commission. They comprise International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretations Committee (SIC) adopted by the IASB. The name International Financial Reporting Standards (IFRS) has been adopted by the IASB for standards issued after May 2003. Standards issued before May 2003 have maintained the denomination IAS.
- **Leverage** measures a company's level of indebtedness, calculated as the ratio between net borrowings and shareholders' equity including non-controlling interests.
- **OECD** (Organisation for Economic Co-operation and Development) composed of thirty-five developed countries having in common a democratic system of government and a free market economy.
- **OPEC** Organization of the Petroleum Exporting Countries.
- **ROACE** (Return On Average Capital Employed) calculated as the ratio between the net result before non-controlling interest, plus net finance charges on net borrowings less the related tax effect and net average capital employed.
- **Special items** items of income arising from events or transactions that are non-recurring or that are not considered to be representative of the ordinary course of business.
- **WACC** Weighted Average Cost of Capital calculated as a weighted average of the cost of the company's debt capital and the cost of risk capital, defined on the basis of the Capital Asset Pricing Model (CAPM) methodology, consistent with the specific risk of Saipem's business, measured by the beta of the Saipem share.
- **Write-off** cancellation or reduction of the value of an asset.

Operational terms

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

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

- **Hydrocracker** installation in which large hydrocarbon molecules are broken down into smaller ones.
- **Hydrotesting** operation involving high pressure (higher than operational pressure) water being pumped into a pipeline to ensure that it is devoid of defects.
- **Hydrotreating** refining process aimed at improving the characteristics of oil fractions.
- **Ice Class** classification that indicates the additional level of upgrading and other criteria that make a ship sea worthy to sail in sea ice.
- **International Oil Companies** privately-owned, typically publicly traded, oil companies engaged in various fields of the upstream and/or downstream oil industry.
- **Jacket** platform underside structure fixed to the seabed using piles.
- **Jack-up** mobile self-lifting unit comprising a hull and retractable legs used for offshore drilling operations.
- **J-laying** method of pipelaying that utilises an almost vertical launch ramp, making the pipe configuration resemble the letter 'J'. This type of pipelaying is suitable for deep waters.
- **Lay-up** idle vessel with suspension of the period of validity of the class certificate.
- **Leased FPSO** FPSO (Floating Production, Storage and Offloading) vessel for which a lease contract is in place between a client/lessee (Oil Company) and a contractor/lessor, whereby the lessee (customer/Oil Company) makes lease payments to the lessor for use of the vessel for a specific period of time. At the end of the lease term, the lessee has the option to purchase the FPSO.
- **LNG** (Liquefied Natural Gas) obtained by cooling natural gas to minus 160 °C. At normal pressure, gas is liquefied to facilitate its transportation from the place of extraction to that of processing and/or utilisation. A tonne of LNG is equivalent to 1,500 cubic metres of gas.
- **Local Content** policy whereby a company develops local capabilities, transfers its technical and managerial know-how and enhances the local labour market and businesses through its own business activities.
- **LPG** (Liquefied Petroleum Gas) produced in refineries through the fractionation of crude oil and subsequent processes, liquid petroleum gas exists in a gaseous state at ambient temperatures and atmospheric pressure, but changes to a liquid state under moderate pressure at ambient temperatures, thus enabling large quantities to be stored in easy-to-handle metal pressure vessels.
- **LTI** (Lost Time Injury) any work-related injury that renders the injured person temporarily unable to perform any regular job or restricted work on any day/shift after the day or shift on which the injury occurred.
- **Marginal fields** oil fields with scarce exploitable resources or at a stage of declining production for which extended use is attempted through low risk, cost effective technologies are used.
- **Midstream** sector comprising all those activities relating to the construction and management of the oil transport infrastructure.
- **Moon pool** opening in the hull of a drillship to allow for the passage of equipment.
- **Mooring buoy** offshore mooring system.
- **Multipipe subsea** subsea gas/liquid gravity separation system using a series of small diameter vertical separators operating in parallel (for deep water application).
- **National Oil Companies** State-owned/controlled companies engaged in oil exploration, production, transportation and conversion.
- **NDT** (Non Destructive Testing) a series of inspections and tests used to detect structural defects conducted using methods that do not alter the material under inspection.
- **NDT Phased Array** non-destructive testing method that employs ultrasound to detect structural or welding defects.
- **Offshore/Onshore** the term offshore indicates a portion of open sea and, by extension, the activities carried out in this area, while onshore refers to land operations.
- **Oil Services Industry** industrial sector that provides services and/or products to the National or International Oil Companies engaged in oil exploration, production, transportation and conversion.
- **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.
- **Shale Oil** non conventional oil obtained from bituminous shale.
- **Shallow water** see Conventional waters.
- **Sick Building Syndrome** a combination of ailments associated with a person's place of work. The exact causes of the syndrome are not known but the presence of volatile organic compounds, formaldehyde, moulds and dust mites may be contributing factors.
- **S-laying** method of pipelaying that utilises the elastic properties of steel, making the pipe configuration resemble the letter 'S', with one end on the seabed and the other under tension on-board the ship. This configuration is suited to medium to shallow-water pipelaying.
- **Slug catcher** equipment for the purification of gas.
- **Smart stacking** period of idleness that allows for optimising costs and the application of a rig preservation plan.
- **Sour water** water containing dissolved pollutants.
- **Spar** floating production system, anchored to the seabed by means of a semi-rigid mooring system, comprising a vertical cylindrical hull supporting the platform structure.
- **Spare capacity** relationship between crude oil production and production capacity, i.e. quantity of oil which is not currently needed to meet demand.
- **Spool** connection between a subsea pipeline and the platform riser, or between the terminations of 2 pipelines.
- **Spoolsep** unit used to separate water from oil as part of the crude oil treatment process.
- **Stripping** process through which volatile compounds are removed from the liquid solution or the solid mass in which they have been diluted.
- **Subsea processing** operations performed in offshore oil and/or natural gas field developments, especially relating to the equipment and technology employed for the extraction, treatment and transportation of oil or gas below sea level.
- **Subsea tiebacks** lines connecting new oil fields with existing fixed or floating facilities.
- **Subsea treatment** a new process for the development of marginal fields. The system involves the injection and treatment of sea-water directly on the seabed.
- **SURF** (Subsea, Umbilicals, Risers, Flowlines) facilities, pipelines and equipment connecting the well or subsea system to a floating unit.
- **TAD** (Tender Assisted Drilling unit) an offshore platform complete with drilling tower, connected to a drilling support tender vessel housing all necessary ancillary infrastructures.
- **Tandem Offloading** method used for the transfer of liquids (oil or LNG) between two offshore units in a line via aerial, floating or subsea lines (unlike side-by-side offloading, where the two units are positioned next to each other).
- **Tar sands** mixture of clay, sand, mud, water and bitumen. The tar is made up primarily of high molecular weight hydrocarbons and can be transformed into various petroleum products.
- **Template** rigid and modular subsea structure where the oilfield well-heads are located.
- **Tendons** pulling cables used on tension leg platforms to ensure platform stability during operations.
- **Termination for Convenience** the right to unilaterally terminate the contract at any time without giving a reason, upon payment of a contractually negotiated settlement in order to exercise said right (so called 'termination fee').
- **Tie-in** connection between a production line and a subsea wellhead or simply a connection between two pipeline sections.
- **Tight oil** oil 'trapped' in liquid form deep below the earth's surface in low permeability rock formations, which it is difficult to extract using conventional methods.
- **TLP** (Tension Leg Platform) fixed-type floating platform held in position by a system of tendons and anchored to ballast

caissons located on the seabed. These platforms are used in ultra-deep waters.
- **Topside** portion of a platform above the jacket.
- **Train** series of units that achieve a complex refining, petrochemical, liquefaction or natural gas regasification process. A plant can be made up of one or more trains of equal capacity operating in parallel.
- **Trenching** burying of offshore or onshore pipelines.
- **Trunkline** oil pipeline connecting large storage facilities to the production facilities, refineries and/or onshore terminals.
- **Umbilical** flexible connecting sheath, containing flexible pipes and cables.
- **Upstream** relating to exploration and production operations.
- **Vacuum** second stage of oil distillation.
- **Warm Stacking** idle plant, but one ready to resume operations in the event that a new contract is acquired. Personnel is at full strength and ordinary maintenance is normally carried out.
- **Wellhead** fixed structure separating the well from the outside environment.
- **WHB** (Wellhead Barge) vessel equipped for drilling, workover and production (partial or total) operations, connected to process and/or storage plants.
- **Workover** major maintenance operation on a well or replacement of subsea equipment used to transport the oil to the surface.

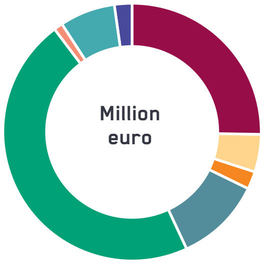
OPERATING REVIEW

Market context

The first six months of 2018 confirmed the signs of recovery glimpsed towards the end of 2017, which were linked to the recovery in overall demand and inflation: global GDP growth compared to 2017 is estimated at just under 4%. There was a positive trend both in emerging markets, such as in Asia (specifically in India), and in advanced economies, while there was a slowdown in the Middle East and North Africa.
At the beginning of 2018, the price of oil averaged around $71/barrel, substantial growth compared the average of $53/barrel in 2017, reaching, in the second quarter, over $79/barrel. The prolonged recovery was influenced by increased consumption, by continuing geopolitical tensions in critical areas, such as the Middle East (specifically Iran) and by the renewed agreement to cut production by OPEC countries.
With regard to investments in the Oil & Gas industry, after two consecutive years of negative growth (2015 and 2016) and some signs of recovery in 2017, 2018 is expected to be a year of light recovery. Although this growth, in 2017, was almost exclusively due to the North American drilling market and therefore linked to non-conventional developments, in 2018 slight improvements in investment prospects are expected, also in international markets and in particular in South America, Africa and the Middle East. After a period of delay in project awards and cancellations of higher risk initiatives, there was an increase in final investment decisions by oil companies. After the prolonged period of market decline started in the second half of 2014, the main companies in the sector had to adapt to an industrial context characterised by lower volumes, promoting a strategy of

NEW CONTRACTS BY GEOGRAPHIC AREA

(€3,986 million)



ORDER BACKLOG BY GEOGRAPHIC AREA

(€12,580 million)

Saipem Group - New contracts awarded during the first half of 2018

2017		(€ million)	First half 2017		First half 2018	
Amount	%		Amount	%	Amount	%
1,947	26	Saipem SpA	260	12	2,893	73
5,452	74	Group companies	1,828	88	1,093	27
7,399	**100**	**Total**	**2,088**	**100**	**3,986**	**100**
3,404	46	Offshore Engineering & Construction	1,345	65	1,573	39
3,566	48	Onshore Engineering & Construction	444	21	2,298	58
303	4	Offshore Drilling	253	12	59	2
126	2	Onshore Drilling	46	2	56	1
7,399	**100**	**Total**	**2,088**	**100**	**3,986**	**100**
57	1	Italy	46	2	1,012	25
7,342	99	Outside Italy	2,042	98	2,974	75
7,399	**100**	**Total**	**2,088**	**100**	**3,986**	**100**
1,040	14	Eni Group	316	15	105	3
6,359	86	Third parties	1,772	85	3,881	97
7,399	**100**	**Total**	**2,088**	**100**	**3,986**	**100**

cost reduction. We have seen, in several cases, restructuring programmes and mergers and incorporation were carried out in order to remain as competitive as possible in the market, strengthening the financial structure and diversifying traditional businesses, even those outside of the Oil & Gas industry.

New contracts and backlog

New contracts awarded to the Saipem Group during the first half of 2018 amounted to €3,986 million (€2,088 million in the first half of 2017).
The €29 million increase in the backlog from €12,363 million at December 31, 2017 is due to the application of the accounting standard IFRS 15, specifically: €16 million are related to contracts in the Offshore Drilling sector, €8 million to contracts in the Onshore E&C sector and €5 million to contracts in the Onshore Drilling sector.
39% of all contracts awarded were in the Offshore Engineering & Construction sector, 58% in the Onshore Engineering & Construction sector, 2% in the Offshore Drilling sector and 1% in the Onshore Drilling sector.
New contracts to be carried out abroad make up 75% of the total; contracts awarded by Eni Group companies were 3% of the overall figure. Orders awarded to the parent company Saipem SpA amounted to 73% of the overall total.
The backlog as at June 30 amounts to €12,580 million.
The breakdown of the backlog by sector is as follows: 36% in the Offshore Engineering & Construction sector, 53% in the Onshore Engineering & Construction sector, 6% in Offshore Drilling and 5% in Onshore Drilling.
90% of orders were on behalf of overseas clients, while orders from Eni Group companies represented 4% of the overall backlog. The parent company Saipem SpA accounted for 44% of the total order backlog.

Saipem Group - Backlog as at June 30, 2018

June 30, 2017		(€ million)	Dec. 31, 2017 [a]		June 30, 2018	
Amount	%		Amount	%	Amount	%
4,063	35	Saipem SpA	3,385	27	5,576	44
7,654	65	Group companies	9,007	73	7,004	56
11,717	**100**	**Total**	**12,392**	**100**	**12,580**	**100**
4,513	38	Offshore Engineering & Construction	4,644	38	4,467	36
5,020	43	Onshore Engineering & Construction	5,946	47	6,663	53
1,171	10	Offshore Drilling	947	8	785	6
1,013	9	Onshore Drilling	855	7	665	5
11,717	**100**	**Total**	**12,392**	**100**	**12,580**	**100**
657	6	Italy	444	4	1,297	10
11,060	94	Outside Italy	11,948	96	11,283	90
11,717	**100**	**Total**	**12,392**	**100**	**12,580**	**100**
891	8	Eni Group	702	6	493	4
10,826	92	Third parties	11,690	94	12,087	96
11,717	**100**	**Total**	**12,392**	**100**	**12,580**	**100**

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

Capital expenditure

Capital expenditure in the first half of 2018 amounted to €313 million (€147 million in the first half of 2017) and mainly related to:
- €262 million in the Offshore Engineering & Construction sector: purchase of the vessel Saipem Constellation and upgrading of the existing asset base;
- €8 million in the Onshore Engineering & Construction sector: purchase of equipment;
- €25 million for Offshore Drilling: upgrading of the Saipem 12000 drilling vessel, for the purchase of the second BOP, class reinstatement works for the Perro Negro 7 self-lifting drilling rig, as well as maintenance and upgrading operations on other vessels;
- €18 million for Onshore Drilling: upgrading of rigs for operations in Kazakhstan and Saudi Arabia, 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 2018:

Investments		First half	
2017	(€ million)	2017	2018
57	Saipem SpA	32	292
205	Group companies	115	21
262	**Total**	**147**	**313**
114	Offshore Engineering & Construction	41	262
8	Onshore Engineering & Construction	2	8
78	Offshore Drilling	63	25
62	Onshore Drilling	41	18
262	**Total**	**147**	**313**

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

OFFSHORE ENGINEERING & CONSTRUCTION

General overview

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

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

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

As far as the Pipeline market is concerned, Saipem owns, amongst other assets, the Castorone, a 330-metre long and 39-metre wide mono-hull, designed to carry out the most demanding deep water and large diameter pipelaying projects, but with the necessary flexibility and productivity to be effective even in less complex projects. The vessel's distinctive features include a class 3 DP system, the capacity to fabricate and lay triple joint pipes of up to 60" in diameter (including coating) with a tensioning capacity of up to 1,000 tonnes (up to 1,500 tonnes in pipe flooding conditions using a special patented clamp), a highly automated firing line made up of 7 workstations, the articulated stinger for both shallow and deep-water pipelaying through an advanced control system, and the capacity to operate in extreme environments (Ice Class A0).

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

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

Saipem is constantly engaged in a process of technological innovation and the technologies, both existing and under development, aim to be used throughout the life span of the field (Life of Field); for example: the study and industrialisation of subsea process and treatment systems, such as SPRINGS developed with Total and Veolia, which treats subsea water for the sea water used to be injected into wells; the new generation of resident and autonomous ROV platforms, Hydrone and our long tieback technologies.
Our technological endeavours also contribute to maintaining the highest level of safety, efficiency and productivity of our assets, and we achieve this with our welding (e.g. Internal Plasma Welding for cladded pipes), automation and digitalisation technologies.

Market conditions

The first half of 2018 showed slight improvements in Offshore investments by oil companies expected to continue in the second half of 2018.

However, the level of recovery is expected to be different in the various geographic areas and segments: The Middle East, Latin America and Africa are experiencing the greatest increase in investment spending, which is instead stable, if not down, in Asia-Pacific, Russia and the Caspian Sea. As far as segments are concerned, there is a clear divergence between spending related to subsea development and spending related to surface development, namely EPCI of topsides and their supporting structures. The latter category is undergoing the lowest level of projects sanctioned over the period 2015-2018, due to the concentration of investments by oil companies in the faster and cheaper subsea tie-back developments, maximising the use of already existing surface assets. Spending for services related subsea development is actually slightly increasing with respect to last year.

During the first half of the year there were also weak signs of a longer-term recovery, in fact, the expectation of an increase in the price of oil, as well as the cost efficiency achieved during crisis years, lead to a increase in the number of positive final investment decisions (FID) taken by Oil Companies, thereby improving the industry's expectations for the activities of the next twelve/thirty-six months. Since the beginning of the year the number of visible FIDs is substantially in line with the same period of 2017 (which in reality was already better than the previous year) statements made by Oil Companies suggest that by the end of the year there may be a greater number of projects authorised.
To date, the North Sea and Norway have been the most active areas, with more than half of the projects allotted worldwide since the beginning of the year. Subsea tiebacks are by far the preferred solution, keeping the size of approved developments small, with few exceptions.

Capital expenditure

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

New contracts

The most significant contracts awarded to the Group during the first half of 2018 were:
- for Barzan Gas Co, a new contract in the Middle East, which includes engineering, procurement, construction and installation related to two export pipelines, two interconnection pipelines, connecting elements between pipelines and various subsea structures;
- for ConocoPhilips, a contract in the North Sea that encompasses dismantling of the LOGGS platform topside and jacket;
- for Al Khafji Joint Operations (KJO), a new project in the Arabian Gulf that includes engineering, installation and commissioning of a new pipeline for the transportation of crude oil.

Work performed

The biggest and most important projects underway or completed during the first half of 2018 were as follows.

In Saudi Arabia:
- for Saudi Aramco, engineering and procurement activities are nearing completion on the **19 jackets** and **Manifa**; projects, and installation activities related to the **Safaniya** and **Marjan Zulf** projects are ongoing, 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;
- for Saudi Aramco, activities have been completed under the **Arbi 20/23** project for the engineering, procurement, construction, transport and installation of structures, platforms and pipelines;
- for Saudi Aramco, in the framework of the **Karan** project, work is nearing completion for the engineering, procurement, fabrication, transportation and installation of offshore facilities including an observation platform, a wellhead production deck module, two auxiliary platforms and a pipeline;

- for Saudi Aramco, the fabrication activities are nearing completion and installation is in progress for the **Abu Safah** contract, which involves the engineering, procurement, fabrication, transport and installation phases for the construction of two jackets, two decks, flexible pipelines and composite cables in the field;
- for Al Khafji Joint Operations (KJO), engineering and procurement activities have begun for the **Laying of new hout crude** contract which includes the engineering, procurement, construction, installation and start-up phases of a new pipeline for the transportation of crude oil.

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

In Guyana, for ExxonMobil, engineering and procurement activities are ongoing on the **Liza** project for the engineering, procurement, construction and installation of risers, flowlines, related structures and connections to develop the field located 120 miles off the coast of Guyana at a depth of 1,800 metres. The contract also includes the transport and installation of umbilicals, foundations and collectors for wells and water and gas injection wells and systems.

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

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

In West Africa:
- installation is underway for Total Upstream Nigeria Ltd for the subsea development of the **Egina** field. The scope of work includes engineering, procurement, fabrication, installation and pre-commissioning of subsea oil production and gas export pipelines, flexible jumpers, and umbilicals;
- for Eni Angola, installation activities have been completed for the work related to the **West HUB Development** project which included the construction and installation, in deep water, of umbilicals, risers and flowlines necessary for the development of Block 15/06;
- for Eni Angola activities relating to the **Vandumbu** project are ongoing, which includes engineering, procurement, construction and installation necessary for the development of the Vandumbu field in deep water;
- for Eni Ghana, engineering and procurement continued for the **EPCI Takoradi** project which includes engineering, procurement and construction of the infrastructures needed to boost the capacity of the gas stations situated in the vicinity of the ports of Takoradi and Tema in Ghana.

In Egypt, for Petrobel, installation began for the **Zohr Oru Ramp Up** project which includes engineering, procurement, construction and installation for the 'Optimised Ramp Up' phase of the Zohr gas field development project.

In 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 BP, activities continued for the **Miller decommissioning** project which include dismantling of the Miller platform topside and jacket;
- for Dong Exploration & Production, activities continue for the **Hornsea Wind Power** project which involves the transport and installation of offshore platforms;
- for Nord Stream 2 AG, preparation continued for the **Landfall** project for the construction of the last section of the pipeline crossing the Baltic Sea and the shore approach in Greiswald, Germany;
- for ConocoPhilips, the activities related to the **LOGGS** project began, involving the dismantling of the topside and jackets of a platform.

In Azerbaijan, work is coming to a close 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 Italy, for Trans Adriatic Pipeline AG and within the **Trans Adriatic Pipeline** project, the engineering work continued for the installation of a pipeline for the transportation of gas between Albania and Italy via the Adriatic Sea. Operations in Italy began in November 2017 while operations in Albania began in the second quarter of 2018.

Offshore fleet at June 30, 2018

Saipem 7000	Self-propelled, semi-submersible, dynamically positioned crane and pipelay vessel capable of lifting structures of up to 14,000 tonnes and J-laying pipelines at depths of up to 3,000 metres.
Saipem Constellation	Dynamically positioned vessel for Reel-Lay of rigid and flexible pipelines, down to ultra-deep water depths. It is equipped with a 3,000 tonnes crane and 2 tensioners each with 400 tonnes capacity.
Saipem FDS	Dynamically positioned vessel utilised for the development of deep-water fields at depths of over 2,000 metres. Capable of launching 22" diameter pipes in J-lay configuration with a holding capacity of up to 750 tonnes and a lifting capacity of up to 600 tonnes.
Saipem FDS 2	Dynamically positioned vessel utilised for the development of deep-water fields, capable of launching pipes with a maximum diameter of 36" in J-lay mode with a holding capacity of up to 2,000 tonnes and depths up to 3,000 metres. Also capable of operating in S-lay mode with a lifting capacity of up to 1,000 tonnes.
Castoro Sei	Semi-submersible pipelay vessel capable of laying large diameter pipe at depths of up to 1,000 metres.
Castorone	Self-propelled, dynamically positioned pipe-laying vessel operating in S-lay mode with a 120-metre long S-lay stern stinger composed of 3 articulated and adjustable sections for shallow and deep-water operation, a holding capacity of up to 1,000 tonnes, pipelay capability of up to 60 inches, onboard fabrication facilities for triple and double joints and large pipe storage capacity in cargo holds.
Normand Maximus	Dynamic positioning ship (acquired through a long-term lease) for laying umbilicals and flexible lines up to a depth of 3,000 metres. It is equipped with a crane that has a lifting capacity of up to 900 tonnes and a 550 tonne vertical lay tower with the possibility of laying rigid flow lines.
Saipem 3000	Mono-hull, self-propelled D.P. derrick crane ship, capable of laying flexible pipes and umbilicals in deep waters (3,000 metres) and lifting structures of up to 2,200 tonnes.
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.

ONSHORE ENGINEERING & CONSTRUCTION

General overview

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

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

Market conditions

The snapshot of the first six months of 2018, based on the visible EPC projects declared to the market, shows a volume of allocations increasing over the same period of the last three years. After the peak reached in 2014, the market has gradually shrunk and the engineering and construction companies operating in this sector have undergone a renewal process that is in line with the new market context, which focused attention on the customer, the search for new technologies and opportunities, even outside traditional markets, with particular attention to efficiency and project costs. Support for the recovery came from the price of oil which, after the lows of 2016, increased to over $70/barrel, allowing oil companies to improve their profitability and start investing again. The ongoing geopolitical tensions in different areas weigh on the current context, such as in Iran where the finalisation of new projects is encountering various obstacles, following also sanctions imposed by the United States.

The situation of these first months was favoured by the volume of EPC contracts awarded in the refining segment, which represents almost half of the total volume in the period. Important contracts were also awarded in the LNG, Upstream, Fertilizer and Pipeline segments. Minor awards were recorded in the Petrochemical segment.

Globally, a significant share of awarded EPC projects were located in the Middle East (major projects in Iraq, Bahrain, United Arab Emirates, Oman and Jordan) in the Refining, Upstream, Fertilizer and Pipeline segments; in North America awards were mainly in the LNG segment, with minor awards in Petrochemicals and Refining; in North Africa (Egypt and Algeria) in the Upstream, Refining, Pipeline (water) and Fertilizer segments; in Asia-Pacific (India, Mongolia and minor projects in several other countries) in the Fertilizer, Refining, LNG segments, and with minor projects also in the Petrochemicals and Upstream; in Russia-Central Asia (Kazakhstan, Azerbaijan and minor projects in Russia) in the Refining, Pipeline and Upstream segments and in Africa (Nigeria) awards in the Fertilizer segment and in South America (Brazil) in the Upstream segment.

The Onshore market in the first six months of 2018, compared to the same period last year, shows that the Upstream segment was down, despite important contract awards in North Africa, the Middle East and South America. The LNG segment is growing as a result of projects in the United States thanks to both new awards and initiatives already assigned, but waiting to find the necessary funding. Significant downturn in the pipeline segment which sees its importance reduced, despite some significant awards, mainly in the gas and water sectors, in North Africa (Egypt) and Russia-Central Asia (Kazakhstan), while smaller projects have been awarded in the Middle East (Iraq, Oman and Saudi Arabia) and Asia-Pacific (Mongolia and Australia). Considerable growth for the Refining segment, thanks to the award of important projects in the Middle East (Iraq, Bahrain, United Arab Emirates and Oman), in North Africa (Egypt), in Asia-Pacific (the largest in Mongolia), in Russia-Central Asia (Azerbaijan). The Petrochemical segment reduced its quota due to the lack of important awards, despite the fact that prospects for the second half of the year remain positive (Egypt). Several minor awards were made in Europe, North America and Asia-Pacific. The Fertilizer segment grew considerably, with important projects awarded in Asia-Pacific (India), Africa (Nigeria and Egypt) and the Middle East (Jordan). The Infrastructure segment continues to shoe positive signs of large investments internationally both in traditional markets (Europe and USA) and in new markets (Egypt, Middle East, India, Russia and the Far

East). The most important acquisitions were recorded in the Middle East (Qatar, Saudi Arabia and UAE) in urban areas and in Europe for railway projects funded in part by the European Union (Norway, Sweden, Romania, Bulgaria, Poland and Italy). Finally, the rapid economic development occurring in the emerging countries is creating an important new market for large-scale civil and port Infrastructures which Saipem is targeting, especially in strategic regions.

Capital expenditure

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

New contracts

The most significant contracts awarded to the Group during the first half of 2018 were:
- for Rete Ferroviaria Italiana, a new contract for the construction of the first lot of the Brescia-Verona high speed rail line.
  The contract provides for the engineering, procurement and construction of a railway track of approximately 48 kilometres involving the regions of Lombardy and Veneto and, in particular, the provinces of Brescia, Mantua and Verona;
- for Duqm Refinery and Petrochemical Industries Co, a new contract for engineering, construction procurement and start-up of package 3 as part of the Duqm Refinery development project, located near the coast, in the north-east of Oman.
  Once completed, the refinery will have a capacity of around 230,000 barrels per day;
- for PTT LNG, a new contract which provides for the engineering, procurement, construction and start-up of the Nong Fab terminal for the reception, storage and regasification of liquefied natural gas in the Mueang Rayong district of south-east Thailand.

Work performed

The largest/most important projects underway or completed during the first half of 2018 were:

In Saudi Arabia:
- for Saudi Aramco, the design activities related to the **Hawiyah Gas Plant Expansion** project commenced for the expansion of the Hawaiyah gas treatment plant located in the south eastern part of the Arabian Peninsula;
- work continues for Saudi Aramco on two EPC contracts (Packages 1 & 2) relating to the **Jazan Integrated Gasification Combined Cycle** project for the generation of electricity to be undertaken at approximately 80 km from the city of Jazan, in southwestern 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 two sulphur recovery units and the associated storage systems. The scope of work of both packages include engineering, procurement, construction, pre-commissioning, assistance to commissioning;
- for Petrorabigh (a joint venture between Saudi Aramco and Sumitomo Chemical), the mechanical completion of the **Rabigh II** project related to the naphtha conversion plant and the complex for the production of aromatic compounds, while additional works, awarded during the second half of 2016, are ongoing related to the Utilities and Offsite Facilities package;
- for Saudi Aramco, work is nearing completion 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 **EPC Khurais** EPC project that encompasses the extension of onshore production facilities in the Khurais, Mazajili, Adu Jifan, Ain Dar and Shedgum fields.

In Kuwait:
- engineering and procurement activities have started for Kuwait Oil Co (KOC) related to the **Feed Pipelines for New Refinery** project. The contract includes engineering, procurement, construction and commissioning activities related to the development of the new connection lines and related pumping station and measurement of the new Al Zour refinery located in south Kuwait;
- engineering and procurement is nearing completion 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 India, for Duqm Refinery and Petrochemical Industries Co LCC, engineering and procurement activities related to the **Duqm Refinery package 3** project began. The contract includes engineering, procurement, construction, commissioning and start-up of the tanks located about 80 kilometres south of Duqm, of the pipeline linking them to the refinery and the facilities for exporting the products to the port of Duqm.

In Chile, for Caitan engineering and procurement activities are nearing completion and construction has begun for the **Spence Growth Option** project for the development of a desalination plant and water pipelines in the north of Chile. The project includes engineering, procurement, construction and commissioning activities and will provide desalinated water to the Spence mine located at 1,710 metres above sea level. The scope of the work also includes the construction of three pumping stations and the control and maintenance of related systems.

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

In Indonesia, for BP Berau Ltd, work continues for the engineering, procurement and subcontracting activities and on site preparation activities are ongoing 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. The scope of work encompasses engineering, procurement and construction of two twin production streams and related utilities located at the Lekki Free Trade Zone, Lagos State;
- for Southern Swamp Associated Gas Solution (SSAGS), construction activities have been completed at two of the four sites, while start up activities continue at the other two sites for the **Southern Swamp** contract, which includes engineering, procurement, construction and commissioning of compression facilities at four sites and of new gas central production facilities at one of the sites, which will treat the routed associated gas.

In Italy:
- for Ital Gas Storage (IGS), work is almost complete on engineering and procurement, and construction is underway for the EPC **Cornegliano Laudense Natural Gas Storage Plant** project encompassing the development of natural gas storage plants in Cornegliano Laudense, in the province of Lodi;
- for Versalis, start up activities are nearing completion in relation to the **Versalis-Ferrara IT** 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;
- for Rete Ferroviaria Italiana, engineering activities began in the context of the **CEPAV 2 high speed** Brescia-Verona project, which includes engineering, procurement and construction of 48 kilometres of railway lines in the three provinces of Brescia, Mantua and Verona.

In Mexico:
- for Pemex, activities are underway under the **Tula Planta de Alquilacion** contract which include engineering, procurement, commissioning and launch of a unit at the 'Miguel Hidalgo' refinery located in Tula. Completion is scheduled for the end of July 2018 with the related commissioning;
- for Pemex, the activities under the **Revamping Works Madero** contract are nearing completion, involving the maintenance and revamping of five units of the 'Francesco I' refinery in Minatitlan;
- for Pemex, activities are nearing completion under the **Minatitlan Refinery Plant** contract which include engineering, procurement, commissioning and launch of three units at the 'General Lazaro Cardenas' refinery in Minatitlan. The negotiation of additional activities requested by the client is underway.

In Azerbaijan and Georgia, for the Shah Deniz consortium, work in Georgia has been completed while activities in Azerbaijan related to the **SCPX Pipeline** contract are nearing completion, encompassing the construction of a pipeline which connects the two countries and above ground installations.

In Kazakhstan 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.

Floaters

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

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

The largest/most important projects underway or completed during the first half of 2018 were:
- in Angola, for Total, the construction of the FPSO **Kaombo Norte** was completed. The unit has been transported and moored to the production site and offshore commissioning activities are currently underway to prepare it for commissioning. The construction activities of the FPSO **Kaombo Sul** and onshore commissioning are nearing completion. The Kaombo project involves engineering, procurement, construction and commissioning of two FPSO vessels, followed by a production and maintenance management phase for a duration of 7 years plus an additional 8 optional years.

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

OFFSHORE DRILLING

General overview

At June 2018, the Saipem offshore drilling fleet consisted of twelve vessels, divided as follows: six ultra deep-water units for operations at depths in excess of 1,000 metres (the drillships Saipem 10000 and Saipem 12000 and the semi-submersible drilling rigs Scarabeo 5, Scarabeo 7, Scarabeo 8 and Scarabeo 9), two high specification jack-ups for operations at depths of up to 375 feet (Perro Negro 7 and Perro Negro 8), three standard jack-ups for activities at depths up to 300 feet (Perro Negro 2, Perro Negro 4 and Perro Negro 5) and one barge tender rig (Saipem TAD). All units are the property of Saipem.
The offshore drilling fleet operated in Cyprus, in Egypt (both in the Mediterranean and in the Red Sea), in the Black Sea, in Morocco (Atlantic), in the Middle East, in Congo and in Vietnam.

Market conditions

During the first half of 2018, the first signs of a possible recovery of the market in the medium term were recorded; the exploration activities conducted by customers for the award of future contracts were indeed rather significant; similarly, forecasts for investments by Oil & Gas companies for the acquisition of drilling services showed a slight growth trend compared to 2017, the year in which the negative trend reached its lowest point since 2014. The trend in oil prices also showed encouraging signs, standing steadily above $70/barrel from April and reaching, even if for only a few days, the value of $80 in May.
However, despite the potential positive signals mentioned above, during the first half of the year the market continued to undergo a phase characterised by high competition among contractors and a strong pressure on installments, maintained at rather weak levels recorded in 2017. This was also evidenced by the rates of use, which remained at the values of 2017 and with the only technically more modern units (such as ultra deep water floaters and high specification jack-ups) able to record employment rates slightly higher than 70%.
As has already occurred between 2015 and 2017, the Oil & Gas sector's downturn has continued pushed several companies to opt for dismantling the oldest assets and those with the lowest probability of being used. Overall more than 160 facilities have been withdrawn from the market since the beginning of the crisis, leading to a roughly 18% drop in drilling rigs. While up until 2017 the floaters segment suffered the greatest downsizing, in the first half of 2018 it was the standard jack-up category, with almost 30 plants withdrawn, that suffered the most significant drop.
Due to the significant number of contracts awarded during the previous positive market phase, the construction of new offshore drilling units continued to remain at significant levels: As of June, 131 new units are currently in construction (90 jack-ups, 13 semi-submersibles and 28 drillships), of which only one has been contracted for use.
As has already occurred in the past, the negative market phase has also led, in several cases, to the postponement of the time frames for the delivery of plants under construction, ostensibly to 2019 and beyond, while awaiting better market conditions.
The significant number of units that will be delivered in the medium term, the already mentioned reduction of the rigs that affected part of the existing fleet and the consolidation operations on the market that occurred between 2017 and the first half of 2018 represent structural changes in the offshore drilling segment that may have significant effects in the medium to long term.

Capital expenditure

Investments made during the first half of 2018 concerned class reinstatement and work to ensure the compliance of vessels with international regulations and client requirements. Among the rigs subject to maintenance activities there was in particular the jack-up Perro Negro 7 with operations that began in April and are expected to be completed in July, aimed at renewing the class certification. In addition, activities were started to purchase equipment (in particular the second BOP) for the Eni - Mozambique project carried out by the Saipem 12000 drillship starting from 2019.

New contracts

The most significant contracts awarded to the Group during the first half of 2018 were:
- for Aker BP, the execution of works for the construction of four wells off the coast of Norway with the use of the semi-submersible Scarabeo 8; the contract

also includes two additional optional wells. Operations are expected to start indicatively in the first quarter of 2019;
- for Total, the construction of a well off the coast of Norway with the use of the semi-submersible Scarabeo 8; work will begin after the conclusion of the activities carried out for Shell and are expected to start indicatively in the fourth quarter of 2018;
- for Shell Norske, work on the construction of a well in Norway; the project, awarded through the exercise of a contractual option, will be implemented with the use of the semi-submersible Scarabeo 8.

Work performed

In the first half of 2018, Saipem's offshore units drilled 37 wells (of which 26 workovers), totalling 34,684 metres.
The fleet was used in the following way:
- ultra deep water/deep-water units: the drillship **Saipem 12000** operated off the coast of Cyprus where, at the beginning of March, it completed the first of two wells provided for the contract with the client, Eni. Subsequently, for reasons not attributable to Saipem, it was impossible to drill the second well so the client opted to move the drillship to Morocco for the operations completed in the month of May. The vessel was then sent to warm stacking in Las Palmas in the Canary Islands to wait for its next assignment. The drillship **Saipem 10000**, within the scope of a multi-year contract with Eni, continued operations in Egypt. In March, the semi-submersible **Scarabeo 9**, completed drilling operations for a well in the Black Sea and subsequently, in Costanza, Romania, was prepared to cross the Bosforo (disassembly of drilling towers) which occurred in May. The vessel then stopped at a construction site near Istanbul and in the month of June the reassembly of the drilling towers was completed. The semi-submersible **Scarabeo 8** was operating until May preparing for contractual commitments with Shell, Total and AkerBP and, subsequently, started operations for Shell.
  The semi-submersible **Scarabeo 7**, following the customer's decision to suspend operations due to difficult market conditions, remained in paid standby until May when it started operations to drill a well in off the coast of Vietnam for Eni.
  The semi-submersible **Scarabeo 5** remained in smart stacking, awaiting the acquisition of new contracts;
- high specification jack-up: the **Perro Negro 8** and the **Perro Negro 7** continued to operate respectively for ADNOC off the coast of the United Arab Emirates and for Saudi Aramco off the coast of Saudi Arabia;
- standard jack-ups: the **Perro Negro 2** remained laid-up on Saipem's base in Sharjah, United Arab Emirates, while waiting for new works. The **Perro Negro 5** continued operations in Saudi Arabia for Saudi Aramco. The **Perro Negro 4** continued operations in the Red Sea for Petrobel;
- other: the tender assisted **Saipem TAD** completed operations for Eni in January and, as of February has been working for Total off the coast of Congo.

Utilisation of vessels

Vessel utilisation in the first half of 2018 was as follows:

Vessel	(No. of days)	First half 2018 under contract	First half 2018 idle
Semi-submersible platform Scarabeo 5		-	181 (1)
Semi-submersible platform Scarabeo 7		181	-
Semi-submersible platform Scarabeo 8		38	143 (1)
Semi-submersible platform Scarabeo 9		181	-
Drillship Saipem 10000		181	-
Drillship Saipem 12000		128	53 (1)
Jack-up Perro Negro 2		-	181 (1)
Jack-up Perro Negro 4		181	-
Jack-up Perro Negro 5		181	-
Jack-up Perro Negro 7		115	66 (2)
Jack-up Perro Negro 8		181	-
Tender Assisted Drilling Barge		181	-

(1) The vessel was not under contract.
(2) The vessel underwent class reinstatement works and/or preparation works for a new contract.

ONSHORE DRILLING

General overview

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

Market conditions

During the first half of 2018 the overall volume of investments made by Oil Companies in the onshore drilling sector resulted in general growth compared to the previous year, urged on by the slow but steady recovery in the price of oil which reached $70/barrel.
One of the areas that saw the most significant increase was the United States where shale oil remains the main driver for returning the United States to the ranks of a major oil power. For 2018 the use of rigs in North America is expected to in crease with more than 1,200 units, this figure is still far from the peak levels reached in 2014, when there were over 2,000 active vessels.
During the first six months of 2018, internationally, onshore drilling increased when compared 2017, both in terms of the number of drilling rigs and the investment in exploration and production. The most dynamic region is Asia-Pacific, followed by the Middle East, which showed substantially stable levels of activity compared to 2017 thanks to Saudi Arabia (which is confirmed as the market of reference in the region) and to countries that have started significant programmes of development such as Kuwait. In Iraq the fleet of drillships is expected to grow during 2018 thanks to elevated production targets declared by the local government and that must be met by 2022. South America, an area which has historically been oil price sensitive, saw moderate growth in commercial activities, especially Argentina which holds a market share of almost 40% in terms of spending. Even in the other regions where Saipem operates (Europe and Africa), spending is in line with the previous year.

In the last two years the day rates have reached slightly higher levels than those recorded in the first months of 2018 due to the increase in demand. For 2018 a progressive recovery of tariffs is expected.

Capital expenditure

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

Work performed

In the first half of 2018, Saipem's offshore units drilled 89 wells (of which 7 workovers), totalling 338,088 metres.
In Latin America Saipem operated in several countries: in **Peru** operations were carried out for various customers (including Pluspetrol, CNPC and Frontera Energy) and Saipem operated in the country with 15 onshore units (thirteen owned and two provided by the client) and four units installed on offshore rigs. In **Bolivia** a total of five rigs were used for YPFB Andina, Shell and Repsol. In **Argentina** two rigs were deployed, one which operated for Total. In **Colombia** Saipem is operating with a rig that is currently working for Parex. In **Ecuador** four units were deployed, one of which will begin operations in the second half of 2018. In **Venezuela** the nineteen rigs in country remained inactive. In **Romania** drilling activities were carried out with the client OMV-Petrom. In **Saudi Arabia** Saipem deployed twenty-eight rigs which carried out operations for Saudi Aramco under previously acquired multi-year contracts. In **Kuwait** operations of two Saipem units provided to the client KOC are ongoing, under previously existing contracts. In **Kazakhstan** Saipem operated with three owned rigs, two of which where contracted to the client Zhaikmunay. One rig continues its operations and the second will begin drilling in the second half of 2018. In Africa, Saipem operated in the **Congo** and in **Morocco**, in the former case for Eni Congo SA with the management of a unit owned by the client, and in the latter with a proprietary rig which began activities for Sound Energy. In **Italy**, work continued on preparation of a rig for use for Eni; the works, initially expected to commence in the first half of 2016, were postponed to the second half of 2018 by the client: The period is, however, remunerated at the stand-by rate.

Utilisation of rigs

Average utilisation of rigs in the first half of 2018 was 66.7% (62.7% in the same period of 2017). As of June 30, 2018, company-owned rigs amounted to 84, located as follows: 28 in Saudi Arabia, 19 in Venezuela, 17 in Peru, 5 in Bolivia, 4 in Ecuador, 3 in Kazakhstan, 2 in Kuwait, 2 in Argentina, 1 in Colombia, 1 in Italy, 1 in Morocco and 1 in Romania.
In addition, 2 third party rigs were used in Peru and 1 third-party rig in the Congo.

FINANCIAL AND ECONOMIC RESULTS

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 2017	(€ million)	First half 2017	First half 2018	% Ch.
8,999	**Net sales from operations**	**4,590**	**3,798**	**(17.3)**
21	Other income and revenues	2	1	
(6,505)	Purchases, services and other costs	(3,273)	(2,654)	
(35)	Net reversals (impairments) of trade and other receivables	8	3	
(1,618)	Payroll and related costs	(854)	(738)	
862	**Gross operating profit (EBITDA)**	**473**	**410**	**(13.3)**
(736)	Depreciation, amortisation and impairment	(349)	(484)	
126	**Operating result (EBIT)**	**124**	**(74)**	**..**
(223)	Net finance expense	(115)	(80)	
(9)	Net income (expense) from investments	2	(49)	
(106)	**Result before income taxes**	**11**	**(203)**	**..**
(201)	Income taxes	(110)	(95)	
(307)	**Result before non-controlling interests**	**(99)**	**(298)**	**..**
(21)	Net result attributable to non-controlling interests	(11)	(25)	
(328)	**Net profit (loss) for the period**	**(110)**	**(323)**	**..**

Net sales from operations in the first half of 2018 amounted to €3,798 million.
Gross operating profit (EBITDA) amounted to €410 million. Depreciation and amortisation of tangible and intangible assets amounted to €484 million.
The **operating result (EBIT)** for the first half of 2018 is equal to a loss of €74 million. The main discrepancies are detailed below in the analysis by segment of operations.
Net financial expenses amounted to €80 million, down €35 million as a result of a lower exchange rates.
Net charges on equity investments amounted to €49 million, due to the worsening of a contract under execution by a jointly-controlled company.
The **result before income taxes** amounted to a loss of €203 million. Income taxes were €95 million.
The **net result** was -€323 million.

Year 2017	(€ million)	First half 2017	First half 2018
8,999	**Net sales from operations**	**4,590**	**3,798**
-	Working capital write-down	-	41
8,999	**Adjusted net sales from operations**	**4,590**	**3,839**

Year 2017	(€ million)	First half 2017	First half 2018
126	**Operating result (EBIT)**	**124**	**(74)**
314	Impairment/write-down and reorganisation expenses	136	329
440	**Adjusted operating result (EBIT)**	**260**	**255**

Year 2017	(€ million)	First half 2017	First half 2018
(328)	**Net profit (loss) for the period**	**(110)**	**(323)**
374	Impairment/write-down and reorganisation expenses	202	329
46	**Adjusted net profit (loss) for the period**	**92**	**6**

The loss for the period amounted to €323 million (operating loss for the period of €110 million in the first half of 2017), compared with the adjusted net income reduced by the following special items:
- write-downs of tangible and intangible fixed assets deriving from the impairment test for €256 million, mainly due to the reduction in installments (over the period of the plan) in Offshore Drilling and the updating of the discount rate;
- write-downs of current assets and provisions for costs of €51 million in relation to some pending judgements on projects already completed, deriving from the activity of periodic monitoring of the evolution of the overall dispute;
- restructuring charges of €22 million (net of the tax effect).

Adjusted EBIT reconciliation - EBIT

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Total
Adjusted EBIT	**160**	**32**	**54**	**9**	**255**
Impairment	-	60	196	-	256
Write-downs/accruals [1]	-	51	-	-	51
Reorganisation expenses [1]	7	10	3	2	22
Total write-downs	(7)	(121)	(199)	(2)	(329)
EBIT	**153**	**(89)**	**(145)**	**7**	**(74)**

(1) Total €73 million: adjusted EBITDA reconciliation equal to €483 million compared to EBITDA equal to €410 million.

Saipem Group - Adjusted income statement

Year 2017	(€ million)	First half 2017	First half 2018	% Ch.
8,999	**Adjusted net sales from operations**	**4,590**	**3,839**	**(16.4)**
21	Other income and revenues	2	1	
(6,465)	Purchases, services and other costs	(3,261)	(2,644)	
(35)	Net reversals (impairments) of trade and other receivables	8	3	
(1,556)	Payroll and related costs	(815)	(716)	
964	**Adjusted gross operating profit (EBITDA)**	**524**	**483**	**(7.8)**
(524)	Depreciation, amortisation and impairment	(264)	(228)	
440	**Adjusted operating result (EBIT)**	**260**	**255**	**(1.9)**
(223)	Net finance expense	(115)	(80)	
(9)	Net income from investments	2	(49)	
208	**Adjusted result before income taxes**	**147**	**126**	**(14.3)**
(141)	Income taxes	(44)	(95)	
67	**Adjusted result before non-controlling interests**	**103**	**31**	**(69.9)**
(21)	Net result attributable to non-controlling interests	(11)	(25)	
46	**Adjusted net profit (loss) for the period**	**92**	**6**	**(93.5)**

Adjusted operating result and costs by function

Year 2017	(€ million)	First half 2017	First half 2018	% Ch.
8,999	**Adjusted net sales from operations**	**4,590**	**3,839**	**(16.4)**
(7,989)	Production costs	(4,060)	(3,292)	
(221)	Idle costs	(99)	(105)	
(130)	Selling expenses	(60)	(72)	
(31)	Research and development costs	(11)	(12)	
(18)	Other operating income (expenses)	(12)	(16)	
(170)	General and administrative expenses	(88)	(87)	
440	**Adjusted operating result (EBIT)**	**260**	**255**	**(1.9)**

In the first half of 2018, the Saipem Group reported **net sales from operations** of €3,839 million, a decrease of €751 million compared to the first half of 2017 due to the reduction of operations in the Offshore Engineering & Construction, as well as Onshore Drilling.
Production costs (which include direct costs of sales and depreciation of vessels and equipment) amounted to €3,292 million, representing a decrease of €768 million over the first half of 2017.
Idle costs increased by €6 million, compared to the first half of 2017. Selling expenses of €72 million showed a €12 million increase is due to current commercial efforts.
Research expenses recorded under management costs, equal to €12 million, and general expenses, equal to €87 million, are similar to the first half of 2017.

Offshore Engineering & Construction

Year 2017	(€ million)	First half 2017	First half 2018
3,692	Adjusted net sales from operations	2,020	1,750
(3,137)	Cost of sales	(1,744)	(1,491)
555	Adjusted gross operating profit (EBITDA)	276	259
(196)	Depreciation and amortisation	(88)	(99)
359	Adjusted operating result (EBIT)	188	160
(25)	Impairment/write-down and reorganisation expenses	(16)	(7)
334	Operating result (EBIT)	172	153

Revenues for the first half of 2018 amounted to €1,750 million, down by 13.4% compared to the first half of 2017, due mainly to lower volumes recorded in Kazakhstan and Central South America, which were partly offset by higher volumes registered in the Middle East.
The cost of sales of €1,491 million decreased by €253 million compared with the first half of 2017, in line with the lower volumes.
Adjusted gross operating profit (EBITDA) for the first half of 2018 amounted to €259 million, equal to 14.8% of revenues, versus €276 million, equal to 13.7% of revenues, in the first half of 2017. This percentage increase was due to strong operational efficiency.
Depreciation and amortisation rose by €10 million compared with the same period of 2017.
Adjusted operating result (EBIT) for the first half of 2018 amounted to €153 million and includes restructuring charges for €7 million.

Onshore Engineering & Construction

Year 2017	(€ million)	First half 2017	First half 2018
4,204	Adjusted net sales from operations	2,000	1,622
(4,225)	Cost of sales	(1,963)	(1,571)
(21)	Adjusted gross operating profit (EBITDA)	37	51
(73)	Depreciation and amortisation	(48)	(19)
(94)	Adjusted operating result (EBIT)	(11)	32
(52)	Impairment/write-down and reorganisation expenses	(42)	(121)
(146)	Operating result (EBIT)	(53)	(89)

Revenues for the first half of 2018 amounted to €1,622 million, down by 18.9% compared to the first half of 2017, due mainly to lower volumes recorded in the Middle and Far East and in West Africa, partly offset by greater volumes recorded in Central South America and Azerbaijan. The cost of sales of €1,571 million, decreased compared to the corresponding period of 2017 due to the extra costs recorded in the previous year on a contract for the Floaters business line.
Adjusted gross operating profit (EBITDA) for the first half of 2018 amounted to €51 million, equal to 3.1% of revenues, versus €37 million, equal to 1.9% of revenues, in the first half of 2017, penalised by the deterioration of a project recorded in the Floater business line in the first quarter of 2017. Adjusted EBITDA does not include the worsening of a contract under execution by a jointly-controlled company, which is posted under the item 'Income (loss) from investments' and corresponding to almost all of this item.
Depreciation and amortisation of €19 million, a decrease compared to the figure for 2016.
The operating result (EBIT) for the first half of 2018 amounted to a loss of €89 million and is inclusive of the write-down of the intangible assets following the impairment test for €60 million, the write-down of current assets and provisions for €51 million and for restructuring charges of €10 million.

Offshore Drilling

Year 2017	(€ million)	First half 2017	First half 2018
613	Adjusted net sales from operations	323	221
(292)	Cost of sales	(166)	(114)
321	Adjusted gross operating profit (EBITDA)	157	107
(122)	Depreciation and amortisation	(61)	(53)
199	Adjusted operating result (EBIT)	96	54
(136)	Impairment/write-down and reorganisation expenses	(76)	(199)
63	Operating result (EBIT)	20	(145)

Revenues for the first half of 2018 amounted to €221 million, a 31.6% decrease compared to the first half of 2017, mainly attributable to the semi-submersible rigs Scarabeo 5 and Scarabeo 8 having been idle in the first half of 2018; this decrease was partly offset by greater revenues generated by the full scale operations of the semi-submersible rig Scarabeo 9, which had been undergoing class reinstatement works in the first quarter of 2017.
The cost of sales, which amounted to €114 million, was down €52 million, in line with the decrease in volumes compared to the same period of 2017.
Adjusted gross operating profit (EBITDA) for the first half of 2018 amounted to €107 million, compared to €157 million in the first half of 2017, with a margin on revenues of 48.4%, in line with the corresponding period of 2017.
Depreciation and amortisation decreased by €8 million compared to the same period in 2017.
The operating result (EBIT) for the first half of 2018 amounted to a loss of €145 million, including the write-down of other vessels following the impairment test for €196 million and restructuring charges for €3 million.

Onshore Drilling

Year 2017	(€ million)	First half 2017	First half 2018
490	Adjusted net sales from operations	247	246
(381)	Cost of sales	(193)	(180)
109	Adjusted gross operating profit (EBITDA)	54	66
(133)	Depreciation and amortisation	(67)	(57)
(24)	Adjusted operating result (EBIT)	(13)	9
(101)	Impairment/write-down and reorganisation expenses	(2)	(2)
(125)	Operating result (EBIT)	(15)	7

Revenues for the first half of 2018 amounted to €246 million, in line with the first half of 2017.
The cost of sales decreased by €13 million compared to the first half of 2017.
Adjusted gross operating profit (EBITDA) for the first half of 2018 amounted to €66 million, equal to 26.8% of revenues, an increase of €54 million, equal to 21.9% of revenues recorded in the first half of 2017 thanks to the cost optimisation measures implemented in South America.

Depreciation and amortisation of €57 million showed a €10 million decrease versus the same period in 2017, as a result of write-downs at December 31, 2017.

The operating result (EBIT) for the first half of 2018 is €7 million and includes restructuring charges for €2 million.

Balance sheet and financial position

Saipem Group - Reclassified consolidated balance sheet [1]

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

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

	June 30, 2017	(€ million)		Jan. 1, 2018 [2]		June 30, 2018
	4,902	Net tangible assets		4,581		4,481
	753	Net intangible assets		753		693
	5,655			**5,334**		**5,174**
2,657		*- Offshore Engineering & Construction*	*2,588*		*2,702*	
559		*- Onshore Engineering & Construction*	*548*		*526*	
1,664		*- Offshore Drilling*	*1,555*		*1,334*	
775		*- Onshore Drilling*	*643*		*612*	
	148	Investments		141		91
	5,803	**Non-current assets**		**5,475**		**5,265**
	752	**Net current assets**		**571**		**468**
	(206)	Provisions for employee benefits		(199)		(209)
	-	**Assets (liabilities) available for sale**		**-**		**-**
	6,349	**Net capital employed**		**5,847**		**5,524**
	4,817	Shareholders' equity		4,510		4,140
	28	Non-controlling interests		41		59
	1,504	Net debt		1,296		1,325
	6,349	**Funding**		**5,847**		**5,524**
	0.31	**Leverage (net borrowings/shareholders' equity including non-controlling interests)**		**0.28**		**0.32**
	1,010,977,439	Number of shares issued and outstanding		1,010,977,439		1,010,977,439

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 72.
(2) Data was restated following new accounting standards IFRS 9 and IFRS 15 having come into force.

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, 2018 stood at €5,265 million, a decrease of €210 million compared to January 1, 2018. The change derives from capital expenditure of €313 million, from depreciation, amortisation and impairment of €484 million, from negative changes in investments accounted for using the equity method and the negative net effect of €10 million deriving mainly from the translation of financial statements in foreign currencies and other changes.

Net current assets decreased by €103 million, from €571 million at January 1, 2018 to €468 million at June 30, 2018.

The **provision for employee benefits** amounted to €209 million, in line with the figure at January 1, 2018.

As a result of the above, **net capital employed** decreased by €323 million, reaching €5,524 million at June 30, 2018, compared with €5,847 million at January 1, 2018.

Shareholders' equity, including minority interests, amounted to €4,199 million at June 30, 2018, a decrease of €352 million at January 1, 2018. This decrease reflected the negative effect of the net result for the period (€298 million), the negative effect of change in the fair value measurement of derivatives hedging exchange and commodity risk (€67 million), compensated in part by the positive effect on shareholders' equity of translation into euro of financial statements expressed in foreign currencies and other variations amounting to €13 million.

Net borrowings at June 30, 2018, stood at €1,325 million, compared to €1,296 million at January 1, 2018.

Analysis of net borrowings

June 30, 2017	(€ million)	Dec. 31, 2017	June 30, 2018
-	Financing receivables due after one year	-	-
1,495	Payables to banks due after one year	941	910
1,495	Bonds and payables to other financial institutions due after one year	1,988	1,990
2,990	**Net medium/long-term borrowings**	**2,929**	**2,900**
(1,809)	Accounts c/o bank, post and Group finance companies	(1,749)	(1,652)
(55)	Available-for-sale securities	(69)	(68)
(2)	Cash and cash on hand	(2)	(3)
(1)	Financing receivables due within one year	(2)	(2)
335	Payables to banks due within one year	147	114
46	Bonds and payables to other financial institutions due within one year	42	36
(1,486)	**Net short-term debt (liquid funds)**	**(1,633)**	**(1,575)**
1,504	**Net borrowings (liquid funds)**	**1,296**	**1,325**

The fair value of derivative assets (liabilities) is detailed in Note 28 'Derivative financial instruments'.

Statement of comprehensive income

(€ million)	First half 2017	First half 2018
Net profit (loss) for the period	**(99)**	**(298)**
Other comprehensive income:		
- change in the fair value of cash flow hedges	218	(80)
- change in the fair value of financial assets, other than investments, measured at fair value through OCI	-	(1)
- exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	(108)	21
- changes in the fair value of investments held as fixed assets	-	
- income tax relating to items that will be reclassified	(51)	13
Other items of comprehensive income	**(59)**	**(47)**
Total comprehensive income (loss) for the period	**(40)**	**(345)**
Attributable to:		
- Saipem Group	(49)	(371)
- non controlling interests	9	26

Shareholders' equity including non-controlling interests

(€ million)	
Shareholders' equity including non-controlling interest at January 1, 2018	**4,551**
Total comprehensive income for the period	(298)
Dividend distribution	-
Purchase/sale of treasury shares net of fair value in the incentive plans	5
Share capital increase net of charges	-
Other changes	(59)
Total changes	**4,199**
Shareholders' equity including non-controlling interest at June 30, 2018	**4,199**
Attributable to:	
- Saipem Group	4,140
- non controlling interests	59

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; (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 2017	(€ million)	First half 2017	First half 2018
(328)	Net profit for the period	(110)	(323)
21	Non-controlling interests	11	25
	Adjustments to reconcile cash generated from operating profit before changes in working capital:		
784	Depreciation, amortisation and other non-monetary items	471	504
(2)	Net (gains) losses on disposal and write-off of assets	1	1
282	Dividends, interests and income taxes	144	138
757	**Net cash generated from operating profit before changes in working capital**	**517**	**343**
77	Changes in working capital related to operations	(199)	46
(375)	Dividends received, income taxes paid, interest paid and received	(255)	(103)
459	**Net cash provided by operating activities**	**63**	**288**
(262)	Capital expenditure	(147)	(313)
(25)	Investments and purchase of consolidated subsidiaries and businesses	(9)	-
17	Disposals	7	-
1	Other cash flow related to capital expenditures, investments and disposals	-	-
190	**Free cash flow**	**(86)**	**(25)**
(13)	Borrowings (repayment) of debt related to financing activities	2	-
(207)	Changes in short and long-term financial debt	38	(71)
(27)	Sale (buy-back) of treasury shares	-	-
(2)	Cash flow from capital and reserves	(2)	(15)
(82)	Effect of changes in consolidation and exchange differences	(33)	15
(141)	**NET CASH FLOW FOR THE PERIOD**	**(81)**	**(96)**
190	**Free cash flow**	**(86)**	**(25)**
(27)	Sale (buy-back) of treasury shares	-	-
(2)	Cash flow from capital and reserves	(2)	(15)
(7)	Exchange differences on net borrowings and other changes	34	11
(154)	**CHANGE IN NET BORROWINGS**	**(54)**	**(29)**

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 72.

Net cash provided by operating activities positive for €288 million, net of the negative cash flow from capital expenditures and other investment related changes €313 million, generated a negative cash flow of €25 million. The **cash flow from capital and reserves** is negative for €15 million and is related to dividend payment. Exchange differences on net borrowings produced a net negative effect of €11 million.
As a result, **net borrowings** increased by €29 million.
Net cash generated from operating profit before changes in working capital of €343 million related to:
- the net result for the year of -€298 million;
- depreciation, amortisation and impairment of tangible and intangible assets of €484 million, by the effect of the valuation of investments accounted for using the equity method of €49 million, the change in the provision for employee benefits of €9 million and exchange rate partly offset by differences and other changes for €38 million;
- net losses on the disposal of assets of €1 million;
- net finance expense of €43 million and income taxes of €95 million.

The positive change in working capital related to operations of €46 million was due to financial flows of projects underway.
Dividends received, income taxes paid, interest paid and received during the first half of 2018 were negative for €103 million and were mainly related to income taxes paid net of tax credits and interest paid.
Capital expenditure during the year amounted to €313 million. The breakdown by division is as follows: Offshore Drilling (€25 million), Offshore Engineering & Construction (€262 million), Onshore Drilling (€18 million) and Onshore Engineering & Construction (€8 million). Additional information concerning capital expenditure made during 2018 can be found in the 'Operating Review' section.

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

(€ million)	Dec. 31, 2017 published	Effect of IFRS 9 application	Effect of IFRS 15 application	Jan. 1, 2018
Net tangible assets	4,581			4,581
Net intangible assets	753			753
	5,334			**5,334**
Investments	141			141
Non-current assets	**5,475**			**5,475**
Net current assets	**619**	**(28)**	**(20)**	**571**
Provision for employee benefits	**(199)**			**(199)**
Net capital employed	**5,895**	**(28)**	**(20)**	**5,847**
Shareholders' equity	4,558	(28)	(20)	4,510
Non-controlling interests	41			41
Net debt	1,296			1,296
Hedging	**5,895**	**(28)**	**(20)**	**5,847**
Leverage (net borrowings/shareholders' equity + non-controlling interests)	**0.28**			**0.26**

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 24.0%, as per the applicable tax legislation.

Return On Average Operating Capital

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

		Dec. 31, 2017	June 30, 2017	June 30, 2018
Net result	(€ million)	(307)	(2,235)	(506)
Exclusion of finance costs on borrowings (net of tax effect)	(€ million)	169	151	143
Unlevered net result	(€ million)	(138)	(2,084)	(363)
Capital employed, net:	(€ million)			
- at the beginning of the period		6,335	9,040	6,349
- at the end of the period		5,895	6,349	5,524
Average capital employed, net	(€ million)	6,115	7,695	5,937
ROACE	(%)	**(2.26)**	**(27.08)**	**(6.11)**
Return On Average Operating Capital	(%)	**(2.26)**	**(27.08)**	**(6.11)**

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, 2017	June 30, 2018
Leverage	0.31	0.32

SUSTAINABILITY

Business sustainability

Saipem's vision of sustainability is an element characterising the Company's business strategies, which involves not only managing operations in a responsible way but also promoting dialogue and relations with its stakeholders. The Company's presence in local communities actually enables it to build shared values that contribute to the socio-economic development of the areas in which we operate.
In this regard, the Company 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, within its business role, to achieving Sustainable Development Goals (SDGs).

Stakeholder engagement

The identification and involvement of all bearers of legitimate interests are fundamental features of the Company's sustainability strategy. Transparency and dialogue with all stakeholders are the tools through which mutual values can be engendered. This general approach was defined to allow Saipem to be a solid presence on the market, and to effectively carry out activities across its entire theatre of operations.
Joining the Global Compact has lead Saipem to chose the highest level of engagement, 'Participatory', for 2018 in light of the ever increasing need to interact with international stakeholders and to progress in implementing the action plan, backbone of the sustainability plan. During the first half of 2018 activities continued for 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.

During the first half of 2018, Saipem also continued its involvement with the financial community, increasingly attentive to sustainability issues. In particular, the Company has actively participated in the initiatives of the Sustainable Finance Forum and has worked with the most important ESG rating agencies. The positioning of the Company in this sense was recognised by the Morning Star ranking based on the Sustainalytics assessment, where Saipem ranked first among Italian listed companies and third among energy companies.

Communicating with stakeholders

For the twelfth year, Saipem has published the 'Saipem Sustainability' report, which illustrates the strategies and actions taken by the Company both in the areas of issues identified by stakeholders such as materials and in terms of commitment to achieving Sustainable Development Goals of the United Nations, for which the document acts as 'Communication on Progress'.

In compliance with Legislative Decree No. 254/2016 on the non-financial disclosure by public entities, the implementation in Italy of Directive No. 95/2014, Saipem has produced the first 'Consolidated Non-Financial Statements' (DNF), a document providing information on management performance of non-financial aspects that describes the Group's policies, activities, main results and impacts generated during the year, in terms of indicators and trend analysis. The Statement is included as a separate section in the 'Director's Report' of the '2017 Annual Report'.

On June 28, 2018, the Board of Directors approved the 'Modern Slavery Statement 2017' which describes the policies and actions taken by the Saipem Group to measure and strengthen the systems and processes which ensure respect for Human Rights and Workers' Rights and to prevent forms of modern slavery and trafficking in human beings in their direct activities and along the supply chain.

RESEARCH AND DEVELOPMENT

Due to changes of the global scenario of energy sources and the increased exploitation costs, the Oil & Gas industry must innovate to tackle the challenges of the near future. Saipem's new innovation model is the synthesis of the urgency of providing concrete innovative solutions in the short term that reflect the challenges deriving from the evolution of macro-scenarios. In addition, the 'digital' option is widely pursued for both short and long-term goals.

In this context, Saipem organises its own technological innovation activities in accordance with three main guidelines:
- technology development applied to instruments and technologies for the execution of commercial projects, high-tech integrated systems or technologies licensed by Saipem;
- transformative innovation to change processes and the way Saipem operates to incentivise production and pursue new proposals for value, with greater openness to the 'ecosystem', for drawing a benefit from digitalisation technologies;
- intelligence technology to investigate new technologies inside and outside the Oil & Gas industry, for the purpose of identifying striking emerging technologies offering major opportunities for the Company's business. With regard to the latter, during the period extensive technological research was pursued in the fields of interest and some innovative technologies have already been identified, and the related agreements with the technology owners or are being defined.

Saipem is working on a number of innovative solutions for the Offshore Engineering & Construction division that can change the method by which the existing fields or new 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. This is possible by targeting the so-called 'Subsea Factory', 'Long Tie-Back' solutions and 'All Electric' fields, at the same time reducing subsea installation of underwater pipelines and equipment installed.

One of these innovative architectures is the 'Heat Traced Pipe-in-Pipe' technology, suitable for 'J' laying of rigid pipelines, for which Saipem completed development and activated a revision phase to turn the application into a concrete business opportunity. The 'Heat Traced Pipe-in-Pipe' technology, 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. Saipem is also developing a and innovative 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.

The 'Internal Plasma Welding' technology, for the welding of carbon steel pipelines or pipelines coated with anti-corrosion materials, has been successfully used in several projects and has been the key technology for the acquisition of the Barzan project in Qatar. New and even faster welding and field joint coating techniques, exotic and composite materials for pipes, valves, spools and ancillaries are under development, to face corrosion, fatigue, high pressure and high temperature applications.

A further step forward is obtained with the use of pipelines lined internally with plastic material, as an alternative to the more expensive pipelines coated with anti-corrosion materials. The new 'Fusion Bonded Joint' technique allows the continuity of the internal plastic protective coating to be restored during the construction and laying of water injection lines and, in the future, for the hydrocarbon production lines. Saipem is also active in the development of solutions that integrate the new and breakthrough thermoplastic composite products for pipelines with the aim of optimising costs. Generally speaking, the achievement of these goals is also the result of cooperation with industrial partners such as Siemens for the Subsea Control System and Total with Veolia for the industrialisation of the SPRINGS™ technology (Subsea PRocess and Injection Gear for Seawater) which consists of underwater water treatment.

Regarding the 'Life of Field' technologies, Saipem achieves vertical integration by extending its field of activity from URF (Umbilicals Risers Flowlines) to treatment on the seabed, including the entire life cycle of

the field up to its decommissioning.
The increase in the number of functions and operations assigned to subsea rigs leads to increasingly complex fields, with the consequent need to inspect, monitor, maintain and repair subsea infrastructures, activities to which Saipem's innovative solutions can contribute.
Remote operations and subsea intervention technologies are key elements for the success of installation and 'Life of Field' services.
Saipem can make use of all of its subsea intervention technologies, such as the ROV (Remotely Operated Vehicle) Innovator, the SiRCoS pipeline repair system, the ultra-deep and ultra-low water excavation systems and the other engineered subsea systems, the new Heavy Work Class ROV Innovator 2.0™, a recently launched model, operating on board the 'Normand Maximus' ship, which is able to use them in extreme sea conditions.
With the new concept of 'Hydrone', Saipem is launching itself even further into the future of underwater robotics. Hydrone is a subsea platform built by the Hydrone-S, an advanced AUV (Autonomous Underwater Vehicle), a hybrid vehicle (ROV/AUV) resident on the sea bottom (Hydrone-R) and a resident redeployable ROV system (Hydrone-W).
The accelerated development and industrialisation programme for the Hydrone platform continues with the inspection and testing of the most advanced subsea communication, automatic control, power management, and remote handling technologies, etc.
Saipem and Shell have recently signed an agreement for the industrial development and commercialisation of 'FlatFish', an AUV dedicated to the underwater inspection of structures and pipelines created from a research and development initiative promoted by Shell and other partners starting in 2014. The Hydrone platform will therefore benefit from some of the technologies already developed for the 'FlatFish' prototype, and in particular the Hydrone-S vehicle, the resident AUV unit from this ROV family.

With regard to medium-long term activities, the subsea treatment will also favour the reduction of costs by moving the infrastructures and operations carried out on the surface to the seabed. Significant results were achieved in the industrialisation of the Subsea Factory in full scale, achieving a Subsea-to-Shore solution.
Saipem completed another phase of the joint development project with some of the leading Oil & Gas companies concerning its 'Spoolsep' technology for the gravimetric separation of the oil from the water produced. A new phase has been proposed.
The first phase of the ongoing study with Petrobras on its Hi-Sep™ technology for the separation of CO_2 in dense phase has been completed, and a new phase should begin this year.

The Offshore Drilling division mainly focused on the adoption of new drilling techniques; as part of the digitisation of drilling activities, together with a leading operator in the sector, new approaches based on Virtual & Augmented Reality for Maintenance & Asset Management were pursued and the development of a platform for Smart Wearable Devices was investigated, to improve the safety conditions of operators on board.

The Onshore Engineering & Construction and XSIGHT divisions have focused mainly on the overall improvement of value proposition to clients, through the design of systems with higher performance and operating availability, at the same time integrating them into the surrounding environment. This is particularly reflected in Saipem's innovative efforts in the monetisation of natural gas, taking advantage of the solid expertise on the subject to maximise the efficiency of the entire value chain.
Specifically, a multi-year plan is in progress to keep the proprietary fertiliser production technology 'Snamprogetti™ Urea' at the highest level of competitiveness. Ongoing activities include:

- improvement of the resistance to corrosion and cost reduction through development of new construction materials;
- the reduction of energy consumption through the optimisation of auxiliary systems and the reduction of environmental impact ('Urea Zero Emission') thanks to highly innovative solutions are under development;
- the increase in production and energy efficiency of the ammonia-urea complexes through the integration of technologies that envisage an increase in the production of Urea (keeping emissions constant) and lower energy consumption.

Considerable efforts have been dedicated to the field of Liquefied Natural Gas (LNG) for which the activities for defining a process for the liquefaction and re-gasification of small-scale natural gas continue.

With regard to Floating LNG, after the qualification of the cryogenic transhipment system of LNG in 'tandem' through the use of floating hoses, it is being tested for a leading Oil & Gas operator. A transhipment system for LNG aimed at reducing the costs of fixed infrastructures is also in development.

An extended programme aimed at improving and optimising various aspects of engineering and construction modes of onshore pipelines is currently underway. New solutions are being developed.

In the medium-long term, with a view to the gradual decarbonisation of energy and the overall containment of CO_2 emissions, Saipem is pursuing numerous and diverse actions, also investing in new hybrid approaches based on green technologies in association with the development of Oil & Gas operations.

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

In the renewable energy sector at sea, boasting the successful installation of the first floating wind farm in the world, Saipem is pursuing several innovative solutions for advanced wind farms, together with a concept developed by Moss Maritime of a floating solar park for which a patent application has been filed.
Saipem is also dedicating effort to emerging innovations and technologies like exploitable energy from the sea and the use of hydrogen as a clean energy vector produced from water using renewable energy.

In the area of environmental protection and specifically regarding 'Oil Spill Response', Saipem has developed a more technologically advanced structure in Trieste for sealing a subsea wellhead where there would be uncontrolled spills. The Offset Installation Equipment system is used to rapidly resolve environmental disasters such as that of the Deepwater Horizon platform in the Gulf of Mexico in 2010. The system, a particularly sophisticated, remote-controlled machine, is able to operate even in extreme conditions, such as an underwater spill in moderately deep waters. The system was tested in the Adriatic Sea, commissioned and delivered to the client and officially presented last March.

Within the complete framework of technological development activities, Saipem filed 29 new patent applications in the first half of 2018.

In the field of Transformative Innovation, Saipem has consolidated the initiative regarding its new incubator of ideas and prototyping laboratory, the 'Innovation Factory', aimed at testing solutions that respond to the challenges of the sector in which Saipem operates through new technologies (digital first and foremost) and new ways, not only to increase efficiency and productivity, but also for the discovery and pursuit of new value propositions.
Some of the prototypes designed have already been directly tested in the field with interesting results; for example, the issues tackled concerning the track & trace of assets and materials for the digitalisation of construction activities, the potential of using drones on land and in the air at Saipem sites and the application of vision technology to specific activities on the offshore fleet vessels.
A new digital and data-centric cooperative method for managing the whole project cycle ('xDIM™') was developed. 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 tendering phase, the process, engineering, activity planning, cost control, materials procurement, construction, delivery, operations and maintenance. At the beginning of 2018 the first executive pilot project was launched in the Innovation Factory. At the same time, a new set of themes were launched in May.

The 'Industry 4.0' theme, thanks to experience in process technologies, the XSIGHT division is developing Industrial Analytics solutions to support operational management of industrial plants, allowing for greater planning of production and optimisation of maintenance with lower costs and fewer unexpected events for equipment and plants, which in turn allows for the reduction of the number and duration of plant downtime.
The innovative methodologies are essentially based on the identification of the correlation between operational data and the integrity of the equipment with the aim of predicting when the item will deteriorate by means of adequate machine learning techniques.

The 'Tech Days' event was held in Cartagena on board the Saipem 7000 where the Company presented to major players in offshore wind energy and media representatives the technologies and the ongoing innovation effort to support the growing role of Saipem in the renewable energy sector within the context of a sustainable business model.

Lastly, the five-year partnership agreement signed with the Politecnico di Milano deserves to be highlighted, which includes the creation of a joint research centre, contracts for research activities on specific topics, and technological support activities. The sectors covered by the agreement concern technologies in gas, oil and derivatives (petrochemicals and refining), technologies for reducing emissions, robotics applied to subsea vessels and digitisation.

HEALTH, SAFETY AND ENVIRONMENT

Health and Safety

Concerning the efforts made in the field of safety at work, in the first six months of 2018 the recorded TRIFR value (number of incidents recorded for every million hours worked) settled at around 0.45, a value which confirms the significant improvement trend recorded also in previous years.

This result is connected to the constant attention the Company places on health and safety issues, the continuous development and updating of its HSE management system and the dissemination of various initiatives in Saipem's different operations.
Confirmation of the commitment in these areas has been the extension of the ISO 14001 and OHSAS 18001 certification to the entire Saipem Group, issued by the international DNV-GL body at the end of 2017, after a third party audit of over 100 days of verification at various sites, projects and companies worldwide.
Regarding widespread initiatives we refer you to:
- the 'Leadership in Health & Safety' (LiHS) programme which is increasingly widespread and deep-rooted in all Saipem realities, also following a specific LiHS Re-boost 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. The programme has been extended also to some contractors;
- the campaign dedicated to the 'Life Saving Rules' was launched directly by the CEO in September 2015 is ongoing. 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. The campaign materials have been enriched with a new tool, designed to support management during visits to operating sites: the Life Saving Rules Management Walkabout Tool. Furthermore, an e-learning platform based on 3-D animation and with final tests is being finalised. Within this widespread campaign there is also a specific programme structured to avoid events linked to objects falling from height. The programme which 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 central element of the entire campaign is the short film 'Choice not Chance', created by the Offshore Engineering & Construction division and made available by Saipem in a limited manner to the entire industry for non-commercial uses through the LHS Foundation;
- the ambitious goal of the LHS Foundation to innovate the way of communicating health and safety issues, involving as many people as possible throughout Italy continues thanks to the 'Italy Loves Security' project. Italy Loves Security is a movement of people, called Ambassadors, composed of professionals, teachers, trainers, workers, private citizens, who believe in the need to act to combat the phenomenon of workplace fatalities and promote cultural change, starting from the methods of communicating these themes, focusing on modern languages, which can be emotionally involving and can impassion people. To celebrate April 28, World Day for Safety and Health at Work, the LHS Foundation, for the third consecutive year, held a roadshow of events organised by the Ambassadors in their own communities. The 2018 edition shows just how much this movement has grown over the years.
In 2016, there were 100 events in 50 Italian cities. In 2017, there were 300 events in 100 Italian cities, which involved thousands of workers, students and citizens in companies, in schools and in public squares. In 2018, there were approximately 700 events all across Italy, which together with those from past editions, have allow us to reach the target of one thousand events, launched by the LHS Foundation. Among these, there are hundreds of corporate events that include training activities, film screenings, awareness activities and creative contests.
Ambassadors who deal with health and safety issues in an innovative way take part in numerous radio and television broadcasts and even in more traditional media. Thousands of children and families are involved in initiatives in schools, public squares and amusement parks. There are also many cultural events, theatrical performances, cabaret and improv theatre and many experiential workshops in schools which are dedicated to young people who are about to enter the workforce;
- the educational activity of the LHS Foundation towards school children

continued, expanding on the theme of leadership in safety following two trains of thought: first aid and the knowledge of symbols and signs useful for dealing with potentially dangerous situations. From January to May 2018, 50 primary school classes in Milan attended the course 'Parole di Primo Soccorso' (First Aid Words), in cooperation with the Italian Red Cross to learn how to behave safely and solve small health emergencies;
- together with Muba, Museo del Bambino, three training sessions of the Piccoli Leader project were organised to teach the primary school teachers and the ambassadors of Italy Loves Security, how to manage the laboratory and bring it into the classrooms;
- strengthening of cooperation between Saipem, the LHS Foundation and LILT (Italian league for the fight against cancer) as joint partner, was reinforced during the first half of the year through the participation of 44 teams and over 9 runners in the Milan City Marathon on April 8. Taking part in the Milano Marathon aims to make employees aware, through sport, of embracing healthy habits and lifestyles. The partnership with LILT extends to other awareness and prevention activities in the company, especially related to the topics of cancer prevention, early diagnosis, nutrition and smoking. The partnership also includes interventions in schools in the Lombardy region, with experiential programmes designed specifically for the various age groups of the students. The activities, conducted by expert trainers, encourage children to make informed decisions, aimed at preserving their health and safety in their daily lives;
- further strengthening of the 'Asset Integrity Management System', a system for the prevention of major accidents that involves the management of critical elements and the identification and timely monitoring of key indicators of specific project and group performance;
- the continuation of the numerous training activities always guaranteeing high quality standards of the training provided and the initiatives linked to the prevention of falls from a height, of 'dropped objects' and to the protection of hands 'Keep Your Hand Safe';
- the continuation of measures aimed at improving the dissemination and systematic use of the various software developed within HSE and aimed at simplifying HSE reporting and audit processes and facilitating data analysis.

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 2018 Saipem has confirmed its objective of strengthening its commitment to specific aspects, including the following:
- energy efficiency: reduce energy consumption and maximise efficiency to reduce Greenhouse Gas emissions (GHGs) and help to fight climate change. In recent years, Saipem has carried out assessments and diagnoses on energy efficiency on numerous assets (in particular, ships, ground and sea drilling rigs, manufacturing yards, office buildings), as well as specific initiatives implemented, including, for example, the optimisation of shipping routes for offshore vessels and offshore drilling vehicles through the use of specific software. For 2018, top management has established a specific environmental objective aimed at defining a corporate strategy for the reduction of GHG. This objective consists in the drafting of a four-year strategic plan for the reduction of GHG and a review of the emissions assessment system aimed at the inclusion of scope 2 emissions (emissions from purchased electricity) and scope 3 emissions (emissions deriving from business trips);
- environmental awareness: during the month of June various initiatives to motivate and make personnel aware of environmental sustainability and the correct management of environmental aspects were launched on World Environment Day (WED). In particular, this year the United Nations Environment Programme (UNEP), promoter of the WED, launched the theme 'Beat Plastic Pollution', which Saipem has subscribed to sponsoring the campaign on its sites and projects. Dedicated material was developed and made available on the Company intranet. The initiative will also be promoted externally, via the Saipem Linkedin channel;
- with regard to offshore vessels (ships and drilling rigs), in 2017, the work began on the mapping of critical elements that can generate spills of hydrocarbons or other dangerous substances. The mapping of critical elements is completed by a Risk Assessment with a focus on the potential for spillage. The mapping activity was completed on some of the main vessels and will continue in the second half of 2018.

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, internal and external, and requested by stakeholders and from various HSE reviews by company management.

HUMAN RESOURCES

Organisation and Quality

During the first half of 2018, the process of consolidating the division organisational model which was taken on by Saipem in the previous year continued, with a view to continually seeking maximum operational flexibility, improved performance and corporate governance processes aimed at maintaining a competitive advantage for Saipem, constantly in line with the principles of compliance and governance.

With this in mind and in line with the objectives of simplification, innovation, effectiveness and efficiency at the basis of the divisionalisation process of the Company, the divisions and the Corporate structures have therefore updated their organisational and operational structure; in particular:
- Offshore Engineering & Construction division: adoption of an organisational structure aimed at strengthening the coordination role on the worldwide network on one had and, on the other, ensuring integrated and coordinated management of the skills and resources of Offshore Engineering & Construction in Italy;
- Onshore Engineering & Construction division: adoption of a functional model with a matrix mechanism that guarantees the correct balancing of responsibilities, greater accountability of project organisation, the enhancement of the division's distinctive technical skills and an organic and integrated commercial network;
- Offshore Drilling division: reorganisation of the Offshore Drilling Management structure, with a view to increasingly punctual division asset monitoring;
- Onshore Drilling division: strengthening the supervision of business promotion and development activities through the establishment of the Business Development function and the allocation of the commercial orientation function reporting to the division manager;
- Corporate: reorganisation of the Digital and Innovation function, in order to make it more in line with the Group's strategy.

The following activities also continued:
- overall adjustment of the system of powers and delegations of Saipem, addressing the specific needs of each individual business, with subsequent updating of the Saipem SpA Authorisation Matrix;
- adaptation of the body of Saipem documents, developed through the 'Regulatory System Updating' Programme;
- worldwide deployment of the model on the affiliated companies and branches, with particular reference to the adaptation of the organisational system in terms of structures, powers and composition of the Board of Directors and to the implementation of the Corporate Document System and to the greater responsibility of the local management in order to ensure uniform and coordinated management of the process.

With regard to the management of Quality activities, with a view to the continuous improvement of the processes, the following projects continued:
- alignment of the Quality System of Saipem SpA with the new ISO 9001 standard maintaining ISO 3834 certification for Onshore Pipelines and Arbatax Fabrication Yard;
- setting up of the Quality Assurance and Control activities in the projects;
- continuous improvement of Lessons Learned and Customer Satisfaction processes, and their implementation on all projects;
- measurement of the KPI according to what is defined by the Process Owners and, more generally, implementation of systems for monitoring and reporting of quality activities of branches/subsidiaries (at company and project level);
- updating the planning and implementation, both at Corporate and project levels, of 'Quality System Internal Audits';
- survey of the 'Cost of non Quality' on selected executive projects;
- optimisation of methodologies and tools to support the Quality and Top Management Functions of the various Saipem companies for the effective management of the Quality System.

Human Resources Management and Industrial Relations

During the first half of 2018, due to an ongoing critical market environment, monitoring and control actions continued for various management issues. These actions are aimed at a greater containment of costs related to the workforce such as holidays, rest days, overtime, transfers, etc. By virtue of the new divisional structure, these were realised through a synergistic cooperation between the corporate structures and the division structures, also evaluating the implementation of specific actions aimed at individual business sectors, with the aim of making them more effective precisely by virtue of the different specificities and the progress of the different contexts.

The Company has implemented these actions through the involvement of the trade unions, sharing as a common goal the need to make the company more streamlined and functional, also through greater attention to particularly critical business processes, with a view to making the structure more and more competitive in the new international market scenario.
With reference to the commitment to strengthen the dialogue with the social partnership, following the signing of the agreement establishing the European Works Council (CAE) of the Saipem Group in 2017, the procedures for appointing national delegates were finalised and the first EWC meeting was convened for the month of July, which will take place in San Donato Milanese.

In the field of human resources management, also for 2018, the company confirmed the reformulation of working hours, which provides for reduced working hours in the summer, to allow, on the one hand, a better work-life balance for resources, and for a different cultural approach in the management of the working hours by the managers and the employees, and at the same time guarantees a rationalisation of company costs.

The attention to the generational turnover of resources, while respecting the protection of critical skills, also continues through the exodus incentive tool pursuant to Article 4 of the Fornero Law.

In the first half of 2018, in continuity with the actions taken in the course of 2017 in terms of corporate welfare, and with the aim of bringing the company closer to the real needs of its people, thereby reinforcing the sense of belonging and loyalty. In this sense, the company confirmed the possibility of converting part of the Productivity Bonus into Welfy services.

In terms of International Industrial Relations, the first half of 2018 was characterised by the renewal and extension of collective agreements in Indonesia, Mexico and Peru. The actions in these countries are aimed at ensuring fair working conditions and a work environment based on compliance with safety requirements to the local workforce.

On the basis of the actions envisaged by the Global Compact, the Company has initiated training sessions on human rights aimed at Human Resources personnel and managers of companies and branches operating abroad, with the aim of strengthening awareness and sensitivity on an issue of particular interest for Saipem. In the first half of 2018, training activities regarding human rights involved 45 resources employed by the companies Saipem SA and Saipem Ltd.

Skills and Knowledge

In continuity with the 2017 programmes, Saipem is committed to investing in generational balance, encouraging the development and growth of younger resources, as well as motivating and retaining the most experienced resources, in order to ensure the protection of the distinctive and strategic skills for Saipem. and encourage generational turnover.

The initiatives undertaken are many and have been able to generate development opportunities for young people, making the most of the senior resources thanks to the sharing and exchange of their know-how.
In this regard, the Human Resources Development Committee was set up, with the objective of monitoring and guiding the development and career of young people, as well as assessing their professional and managerial paths in a universal manner.
Generational turnover is currently achieved in Saipem by supporting the motivation of the most expert resources through tutoring and the transfer of knowledge, as well as creating the organisational and managerial conditions to allow young people to obtain full empowerment.
The exchange of knowledge and skills between different generations is further encouraged through internal initiatives such as Reverse Mentoring which provides for an exchange of knowledge and skills between employees with different seniority with a view to mutual exchange and external initiatives with the presence of Saipem experts as Masters of Craft within the internship programmes. In fact, Saipem's commitment began in 2011 with the Sinergia Programme, through cooperation with some Italian technical institutes for the development of curricular and extra-curricular training courses and in-depth summer campuses.
In line with a prospect of maintaining a

presence in the territory, Saipem has started other important partnerships with higher institutes that will start as of next September, covering, from the start, the 2018-2019 school year. The first partnership was signed with the ISII Marconi Institute of Piacenza, which will become the school that prepares young technicians for drilling both on land and at sea; another one concerns the Sardinia region, where through the commitment of the Fabrication Yard staff of Arbatax Saipem intends to strengthen their preparation and increase the professionalism of the students of the institutes involved.

The consolidation of the employer branding plan continues with the university world through the 'Rolling Stage' continuous recruitment programme dedicated to young undergraduates and new graduates who have already shown interest. Through this programme the brand has been strengthened and interest has increased within the universities.
The company also participated in the project of the Ministry of Foreign Affairs 'Invest Your Talent in Italy' which has been made available to Italian companies as an effective operational tool to support internationalisation. This participation gives the company the possibility to include foreign talent, further enhancing the multiculturalism that characterises Saipem.
The attention and protection of Saipem's technical know-how assets are confirmed and strengthened, as a distinctive and competitive factor for each business and for the company. The assessment and mapping of skills and the collection of our people's experiences are now a well-established company process, thanks also to the commitment to capitalising on technological investments and the results achieved within the K-Map project.
In particular, Saipem managers are guaranteed the possibility of having a clear and precise view of the skills possessed by their people, through the use of reporting dashboards, implemented for each company function in dedicated systems. This action consequently results in initiatives aimed at developing and consolidating the distinctive skills of each professional family. Of particular importance were the initiatives addressed for thematic areas considered critical for the management of projects: engineering, project management, finance and economics, also provided through the support of internal teachers or with e-learning methods.

The centrality of skills as a lever of company competitiveness is further strengthened through strategic planning of resources, in order to make it more focused and connected, within the definition of the qualitative-quantitative needs, to the monitoring and analysis of the evolution of the distinctive skills for the business.
The adoption of this new model will therefore allow a more effective capacity for planning and controlling human capital and distinctive professional skills in line with the evolution of business scenarios.

Initiatives launched last year continue, initiatives aimed at giving greater importance to the Leadership model, a reference paradigm for all Saipem resources. In this sense, the Company has developed, also with the aim of spreading a univocal message of corporate identity and culture, different induction, monitoring and development programmes for personnel.
During the first half of 2018, the design of institutional initiatives dedicated to the development of managerial and behavioural skills identified by the aforementioned Leadership model was completed.
These actions have been included within a group Academy, which cross over all the divisions, with a view of a growing and constant attention to the consolidation of a common heritage of skills.

Initiatives dedicated to the development of managerial resources also continue.
In particular, in June 2018, the first edition of the training course dedicated to the Managing Director and Senior Manager Saipem was completed, together with the MIP-Polytechnic University of Milan. This particular path, which represented a further opportunity to deepen the Leadership model for Italian and international resources holding positions of responsibility and governance, was carried out with methods also made use of a web platform and tools for sharing online content, allowing greater flexibility in moments of sharing and participation.

Finally, in line with the methodology of monitoring skills and the transversal nature of careers, it should be noted that the Succession plan was reinforced, based on 3 drivers: (i) generational turnover;
(ii) inter-divisional careers; and (iii) the aforementioned mapping of technical and managerial skills necessary to cover target positions in the future.

Compensation

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

Following the full regime of the new divisional organisational model, the new short-term incentive system was launched, aimed at guaranteeing a balance between company and division performance, improvement of the system's rewarding capacity and simplification of the same, in order to further encourage everyone's effort towards achieving annual targets.
The Company has ensured, for the entire managerial population, the definition of the new targets for the year 2018, in line with the challenging objectives declared to the market in terms of Free Cash Flow and EBITDA. Furthermore, in order to guarantee strengthening of the connection between sustainable performance over time, value creation and compensation to management, specific objectives for each division have been defined. These objectives are the priority for 2018 and have an impact in a top-down process at all levels of the organisation.

The 2018 Remuneration Policy, whose primary tools and objectives are defined in the 'Remuneration Report', confirms its alignment with the Governance model adopted by the Company and the recommendations of the Corporate Governance 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 '2018 Remuneration Report' was drawn up in compliance with Article 123-*ter* of Italian Legislative Decree No. 58/1998 and Article 84-*quater* of Consob Issuer regulations and was approved by the Board of Directors of Saipem on March 5, 2018, with a favourable vote later expressed by the Shareholders' Meeting on May 3, 2018 (for further details, see the Remuneration Report published on the Saipem site).

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

Considering the context of a challenging business, full attention has been paid to defining the annual remuneration policies aiming to selectively reward those skills that have a greater influence on business results, maintaining the firm commitment to reducing costs while at the same time retaining the distinctive 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 Company has set the remuneration policy guidelines with in a long-term perspective and the variable incentives have been adopted on a selective basis, in favour of long-term deferred payment instruments, confirming the structure of the remuneration package envisaged in 2017.

Innovation

In order to meet multiple challenges that are faced due to the changing social context, Saipem is committed to guaranteeing an increasingly satisfying work-life balance, not only through the previously mentioned changes to working hours, but also through the creation of a Smart Working policy.
The greatest underlying challenge is the creation of a future working model that takes its cues from distinctive elements of the corporate culture.

The Human Resources function is the main driver behind this change through change management initiatives, so that it will be easier to redefine the organisational model of each person's work based on the implementation of emerging principles of flexible work.
These actions focus on people, technology and spaces, in order to optimise and make living and understanding the company more efficient.

In order to adapt quickly to these cultural changes, initiatives aimed at dematerialisation and digitisation are ongoing. In this sense, Saipem continues in its commitment to creating Talent Acquisition and Talent Management processes.

Through this type of integration, it is possible to cover an entire career path for an employee (selection and induction, performance assessment, skills assessment, talent review and compensation) and it is possible to have accurate analysis, guaranteeing a wing-to-wing vision of all the phases within a single system.

Occupational Health and Medicine

In the first half of 2018 the review and consolidation process began regarding IT security on systems managing health data in compliance with legislative protecting physical persons and the processing of their data, as well as the free movement of such data (EU Regulation 2016/679 which entered into effect on May 25, 2018).

The cost containment process was finalised in line with the strategic objectives of efficiency maximisation already pursued during the two-year period 2016-2017 and in compliance with current regulations and international industry guidelines.

Specifically:
- occupational medicine and health surveillance: the process of reviewing protocols and certifications has been completed in compliance with industry Guidelines (OGUK and OGI IPIECA);
- in the field of technological innovation and development aimed at a more secure and efficient management of personal health data, the implementation and dissemination of the 'My Health Records' programme, designed and produced with internal company skills, allows all worldwide Saipem personnel, within the health surveillance system, to consult their health data.
  The purpose of digitalising the health records via 'My Health Records' is to guarantee:
  - more rapid and direct communication between employer, medical staff and employee;
  - immediate use and transferability of the data;
  - availability of a vast quantity of health information in a single space;
  - reduction of costs through data dematerialisation;
- the pre-travel system is consolidated and fully operational and aimed at all Saipem personnel destined to work abroad and is available on an e-learning basis, thanks to the TMS3 platform in line with the developments and updates of international health alerts;
- as an integral part of the Travel Medicine information material, the 'Sì Viaggiare' Saipem app is being updated and managed;
- steering and control activities for the divisions regarding Health Surveillance and Immunisation programmes continues;
- the commitment to health promotion was reconfirmed. For the fourth consecutive year, Saipem SpA has taken part in the WHP programme (Workplace Health Promotion), and specifically for 2018 for issues regarding 'Fighting Smoking' No Smoking Building second-hand smoke;
- cooperation within the scope of providing scientific support on Welfare initiatives within the company;
- scientific guidelines regarding telemedicine carried out internationally.

Year 2017	(units)	First half Average workforce 2017	Average workforce 2018
14,041	Offshore Engineering & Construction	17,007	12,273
12,665	Onshore Engineering & Construction	10,918	12,519
1,661	Offshore Drilling	1,566	1,759
4,779	Onshore Drilling	4,733	4,538
790	Staff positions	1,121	812
33,936	**Total**	**35,345**	**31,901**
5,932	Italian personnel	6,021	5,737
28,004	Other nationalities	29,324	26,164
33,936	**Total**	**35,345**	**31,901**
5,693	Italian personnel under open-ended contract	5,752	5,551
239	Italian personnel under fixed-term contract	269	186
5,932	**Total**	**6,021**	**5,737**

Dec. 31, 2017	(units)	June 30, 2017	June 30, 2018
5,513	Number of engineers	5,832	5,375
32,058	Number of employees	34,472	31,779

INFORMATION SYSTEM

During the first half of 2018 the ICT function consolidated its new organisation, divided into: a new Corporate department called Digital, focusing on digital transformation; a centralised Corporate function of the Services Centre which covers, among other things, 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 company's digital transformation initiatives both generally and for the divisions, maintaining, through the Services Centre, appropriate supervision of the maintenance and development of the company IT system.

In strategic terms, the will to pursue operating cost containment objectives is confirmed, continuing the work done in previous years. This objective was defined as a review of IT sourcing in order to obtain both a reduction in operating costs, and to introduce technical innovations. A new transformation project was in fact launched in 2017, named IT Adaptive Sourcing, which lead to, between the end of 2017 and the beginning of 2018, a profound change in the structure of ICT sourcing. Saipem has selected three technology and service partners, from both single companies and groups of companies, with which it launched a vast review of ICT service procurement. This represents a qualifying element of the company's digital transformation. At the same time and through the tendering process, a supplier for Cloud services was found and the contract was awarded to Microsoft with its Azure offer.
The new contracts signed with Tata Consulting Services, Accenture, DXC with Orange and Accenture with Orange, cover a wide range of services, both for infrastructures and for applications, with a global scale of application for every country where Saipem operates and with a substantial reduction in service costs.
The supply, divided into lots, has already been activated in the relevant areas, both for business applications and for corporate applications; the activation of vendors for infrastructural and IT security solutions is equally advanced. Finally, there is an area of progressive introduction and consolidation, called MSI (Multi Sourcing Integration), which should represent a significant change in the end-to-end control phase of the service offered by the various vendors, both in terms of service quality and costs.
Among the innovative characteristics of the contract is the creation of the supply ecosystem concept. This should ensure that Saipem's needs are covered thanks to the effort to cooperate made by the vendors in light of supporting necessary actions both for the single area and for those activities that intrinsically require cooperation and integration.

Furthermore, significant support was given to innovation initiatives that the company launched between 2016 and 2017 and which in 2018, it relaunched with new initiatives by the Innovation Factory. A road map for digital transformation was outlined and planned, listing the initiatives for digital change being pursued in various areas of the corporate activities.

Concerning the technical results obtained in the period, in the SAP R/3 field some roll-out activities were carried out supporting the business. Following the detachment from Eni, the applications solutions structure for Saipem Finance was also consolidated based mainly on the SAP FSCM (SAP Financial Supply Chain Management) module which optimises the financial information flows and interfaces with the capital market transactions systems.

The general plan that Saipem set up to achieve the complete separation from Eni's IT systems has almost been completed.
Given the needs of the Human Resources function, the programme is essentially completed.

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

In the Human Resources area, a project was completed for the adoption of Oracle Fusion HCM, as a natural cloud-based evolution of the current IT system. Various functions regarding Talent Management have been migrated to Oracle HCM while workforce administration functions remain on the previous system based on Oracle Peoplesoft. An assessment of how to carry out final porting on the HCM system of everything that is still on Peoplesoft will be analysed in a future phase. 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, while the adoption of the ADP solution for more complex payroll is being assessed.

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 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 division Engineering, Project Management, Quality and Construction functions, and on the other hand towards the enhancement of the company data assets, by adopting innovative Big Data solutions.

Numerous areas of intervention were identified relating to both the efficiency, and the increased quality of engineering data that Saipem must provide its clients at the end of the project, during the so-called handover phase of project data and documents.
These solutions have by now been leveraged on a number of contracts, transforming the Saipem Digital Project Data Hub solution into a competitive edge for Saipem.
An important experimentation was finally conducted of Big Data technologies, for managing huge amounts of data, applying it to support the definition of any project claim management actions. The related data management architecture is currently being migrated to the Cloud.

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 the Human Resources function, an in-depth review of the multi-function printer fleet was also carried out, appointing HP Inc to drastically reduce the number of printers, enabling a print-with-badge solution, which ensures more flexible use and confidentiality for printed materials. Thanks to the introduction of IT Adaptive sourcing, a phase for transforming international networking was also launched, implementing software-defined network solutions to optimise data flow between Saipem locations around the world.
The IT infrastructure also played a significant role in creating the area of the Innovation Factory. The Factory was the breeding ground for the experimentation of IT collaboration technologies, with which to promote sharing of smart working experiences and methods mainly based on tools in the Microsoft Office 365 suite.
Governance, compliance and security processes were all carried out successfully according to schedule during the year.
Activities were carried out required by company control methodology for SAP and Oracle Peoplesoft HCM, as well as for main application software, allowing internal client managers to perform the controls required by company rules. 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.

RISK MANAGEMENT

Saipem implements and maintains an adequate system of internal control and risk management, composed of instruments, organisational structures and regulations designed to safeguard company assets and ensure the effectiveness and efficiency of company processes, reliable financial reporting, as well as compliance with laws and regulations, the Articles of Association and company procedures. To this end, Saipem has developed and adopted an Enterprise Risk Management model that constitutes an integral part of its internal control and risk management system. It has done this with the aim of obtaining an organic and overall vision of the main risks for the company that may impact strategic objectives, ensuring greater consistency of methodologies and tools to support risk management, and strengthening awareness, at all levels, of the fact that an adequate assessment and management of risks may impact on the achievement of objectives and on the company's value.

The structure of Saipem's internal control system, which is an integral part of the company's organisational and management model, assigns specific roles to the company's management bodies, compliance committees, control bodies, company management and all personnel. It is based on the principles contained in the Code of Ethics and the Corporate Governance Code, as well as on applicable legislation, the 'CoSO Report' and national and international best practices.

Additional information on the internal control system and risk management, including details concerning its architecture, instruments and design, as well as the roles, responsibilities and duties of its key actors, is contained in the Corporate Governance Report and Shareholding Structure document.

The Saipem Enterprise Risk Management model provides for the assessment of risks on a half-yearly basis both for the Group at the Corporate level and for the main subsidiaries that are identified on the basis of economic-financial and qualitative parameters. Risk assessment is performed by the company's management through numerous meetings and workshops coordinated by the Enterprise Risk Management function. In particular, risk assessment is performed by assessing the risks that could impact Saipem's strategic and management objectives, taking into account the new business model and organisational and procedural changes in the company.
Furthermore, Saipem has developed a process to monitor the Group's main risks on a quarterly basis through specific monitoring indicators on the evolution of risk and related mitigation activities.
At the same time, on an annual basis, Saipem performs an interrelation analysis between the Group's main risks.
Furthermore, starting from the analysis of materiality carried out by the Sustainability function (more information on this tool is in the 'Consolidated Non-Financial Statements' which is part of the '2017 Annual Report'), a focus group was introduced to affiliate the main themes that emerged as, according to Saipem's senior managers, those that are most risky for the Company with the potential impact they may have.
Saipem is exposed to strategic, operational and external risk factors that may be associated with both the Group's business activities and the business sector in which it operates. The occurrence of such risks could have negative effects on the Company's business and on the income, balance sheet and/or financial situation of the Saipem Group. These risk factors have been assessed by management for each individual risk in the framework of drafting the half-yearly and, where deemed necessary, the possible liability was set aside in an appropriate fund. See the 'Notes to the condensed consolidated interim financial statements' for information on liabilities for risks set aside.

Financial risks

The main risks that Saipem is facing and actively monitoring and managing are the following:
(i) the market risk deriving from exposure to fluctuations in interest rates and exchange rates and from exposure to commodity price volatility;
(ii) the credit risk deriving from the possible default of a counterparty;
(iii) the liquidity risk deriving from the lack of adequate financial resources to cover short-term commitments;
(iv) the downgrading risk deriving from the possibility of a deterioration in the credit rating assigned by the main rating agencies.
Financial risks are managed in accordance with Guidelines defined at corporate level, 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 the above-mentioned Guidelines and procedures that provide a centralised model for conducting financial activities.

Market risk - Exchange rate

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

- the economic result due to the different countervalue of costs and revenues denominated in foreign currency at the time of their recognition compared to the time when the price conditions were defined and as a result of the conversion and subsequent revaluation of trade or financing receivables/payables denominated in foreign currencies;
- the Group's reported results and shareholders' equity, as the income and financial statements of subsidiaries denominated in currencies other than euro are translated from their functional currency into euro.

The risk management objective of the Saipem Group is the minimisation of the impact deriving from fluctuations in exchange rates on the result for the year.

Saipem does not undertake any hedging activity for risks deriving from the translation of foreign currency denominated profits or assets and liabilities of subsidiaries that prepare financial statements in a currency other than the euro.

Saipem adopts a strategy to reduce exchange rate risk exposure by using derivative contracts. Hedge transactions may also be entered into in relation to future underlying contractual commitments, provided these are highly probable (so-called highly probable forecast transactions). To this end, different types of derivatives (outright and swaps in particular) are used. Such derivatives are evaluated at fair value on the basis of market standard evaluation and market prices provided by specialised sources.
Planning, coordination and management of this activity at Group level is the responsibility of the Saipem Finance Department, which closely monitors the correlation between derivatives and their underlying flows, as well as ensuring their correct accounting representation in compliance with the International Financial Reporting Standards (IFRS).

An exchange rate sensitivity analysis was performed for those currencies other than euro which may potentially generate impact on exchange risk exposure in the first half of 2018 in order to calculate the effect on the income statement and shareholders' equity of hypothetical positive and negative variations of 10% in the exchange rates.

The sensitivity analysis was carried out in relation to the following financial assets and liabilities expressed in currencies other than the euro:

- exchange rate derivatives;
- trade and other receivables;
- trade and other payables;
- cash and cash equivalents;
- short and long-term financial liabilities.

For derivative instruments on exchange rates, the sensitivity analysis on the fair value was carried out by comparing the forward counter-value as defined in the derivative contracts with the counter-value determined at end of the period spot exchange rates, adjusted at more or less than 10%, and rectified using the end of the period interest rate curves consistent with the maturity dates of derivative contracts.
The analysis did not examine the effect of exchange rate fluctuations on the measurement of contract assets because contract assets does not constitute a financial asset under IAS 32.
In light of the above, although Saipem adopts a strategy targeted at minimising exposure through the use of various types of derivatives (swaps and outrights), it cannot be excluded that exchange rate fluctuations may significantly influence the Group's results and the comparison of results of individual financial years.

A depreciation of the euro compared to other currencies would have produced an overall effect on pre-tax profit of -€82 million (-€56 million at December 31, 2017) and an overall effect on shareholders' equity, before related tax effects, of -€236 million (-€223 million at December 31, 2017).

Appreciation of the euro compared to other currencies would have produced an overall effect on pre-tax profit of €82 million (€47 million at December 31, 2017) and an overall effect on shareholders' equity, before related tax effects, of €237 million (€214 million at December 31, 2017).

The increase/decrease with respect to the previous year is essentially due to variations in the exposed assets and liabilities exposed to exchange rates fluctuations.

Market risk - Interest rate

Interest rate fluctuations influence the market value of the company's financial assets and liabilities and the level of net financial expenses. 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.
The Finance Department of Saipem assesses, when stipulating variable rate financing its, compliance with established objectives, and where appropriate, intervenes by managing fluctuations in interest rates Interest Rate Swap (IRS) transactions.
Planning, coordination and management of this activity at Group level is the responsibility of the Finance Department of Saipem, which closely monitors the correlation between derivatives and their underlying flows, as well as ensuring their correct accounting representation in compliance with the International Financial Reporting Standards (IFRS). Although Saipem adopts a strategy targeted at minimising its exposure to interest rate risk through the pursuit of financial structure objectives defined, it is not to be excluded that interest rate fluctuations could significantly influence the Group's results and the comparability of the results of individual financial years.
Interest rate derivatives are evaluated by the Finance Department of Saipem at fair value on the basis of standard market evaluation algorithms and market prices provided by specialised sources. With respect to interest rate risk a sensitivity analysis was performed. The analysis calculated the effect on the income statement and shareholders' equity which would result from a positive and negative 100 basis point shift on interest rate levels.

The analysis was performed relating to all relevant financial assets and liabilities exposed to interest rate fluctuations and regarded in particular the following items:
- interest rate derivatives;
- cash and cash equivalents;
- short and long-term financial liabilities.

For derivative financial instruments on interest rates, the sensitivity analysis on fair value was conducted by discounting the contractually expected cash flows with the interest rate curves recorded on the basis of year-end levels, shifted up and down by 100 basis points. With reference to cash and cash equivalents and to variable rate financial liabilities, reference was made respectively to the stock at the closing of the year and to changes in exposure expected in the following 12 months. On this basis, a movement of interest rates has been applied by shifting up and down by 100 basis points the interest rates at the end of the period.
A positive variation in interest rates would produce an overall effect on pre-tax profit of €2 million (€4 million at December 31, 2017) and an overall effect on shareholders' equity, before related tax effects, of €2 million (€4 million at December 31, 2017). A negative variation in interest rates would have produce an overall effect on pre-tax profit of -€11 million (-€14 million at December 31, 2017) and an overall effect on shareholders' equity, before related tax effects, of -€11 million (-€14 million at December 31, 2017).
The increase/decrease with respect to the previous year is essentially due to variations in the 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 (copper, steel, etc.), since they represent associated costs in the running of vessels, offices and yards and the implementation of projects and investments.

In order to reduce its commodity risk, in addition to adopting solutions at a commercial level, Saipem also trades over the counter derivatives (swap and bullet swaps) in particular on the organised ICE, NYMEX and LME markets where the relevant physical commodity market is well correlated to the financial market and is price efficient.

As regards commodity price risk management, derivative instruments on commodities were negotiated by Saipem to hedge underlying contractual commitments. Hedge transactions may also be entered into in relation to future underlying contractual commitments, provided these are highly probable (so-called highly probable forecast transactions). Despite the hedging instruments adopted by the Company to control and manage commodity risks, Saipem cannot guarantee that they will be either efficient or adequate or that in future it will still be able to use such instruments.
Commodity derivatives are evaluated at fair value by the Finance Department of Saipem on the basis of standard market evaluation algorithms and market prices provided by specialised sources.
With regard to commodity risk hedging instruments, a 10% positive variation in the underlying prices would have produced no effect on pre-tax profit and on shareholders' equity. A 10% negative variation in the underlying prices would have produced no effect on pre-tax profit and on shareholders' equity.

(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 risk management is under the responsibility of the business units and of specific corporate Finance and Administration departments operating on the basis of standard business partner evaluation and credit worthiness procedures.
For counterparty financial risk deriving from the investment of surplus liquidity, from positions in derivative contracts and from physical commodities contracts with financial counterparties, Group companies adopt Guidelines issued by the Finance Department of Saipem in compliance with the centralised treasury model of Saipem. In spite of the measures implemented by the Company in order to avoid concentrations of risk and/or assets and for identifying the parameters and conditions within which hedging instruments can operate it is not possible to exclude the possibility that one of the Group's clients may delay payments, or fail to make payments, within the defined terms and conditions.
Any delay or default in payment by the main clients may imply difficulties in the execution and/or completion of projects, or the need to recover costs and expenses through legal action.

(iii) Liquidity risk

The evolution of working capital and of financial requirements is strongly influenced by the invoicing time frames for contract assets and the collection of the relevant receivables. Consequently, and despite the fact that the Group has implemented measures targeted at ensuring that adequate levels of working capital and liquidity are maintained, possible delays in the progress of projects and/or in the definition of situations being finalised with clients, may have an impact on the capacity and/or on the time frames for the generation of cash flows.
Liquidity risk is the risk that suitable sources of funding for the Group may not be available (funding liquidity risk), or that the Group is unable to sell its assets on the market place (asset liquidity risk), making it unable to meet its short-term finance requirements and settle obligations. Such a situation would negatively impact the Group's results as it would result in the company incurring higher borrowing expenses to meet its obligations or to the extreme consequences 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, consistently with business objectives and prescribed limits, can guarantee a level of liquidity in terms of borrowing facilities and committed credit lines sufficient for the entire Group.
At present, through the management of flexible credit lines suitable with business requirements, Saipem believes it has access to funding that is more than adequate and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.
The liquidity management policies used have the objective of ensuring both adequate funding to meet short-term requirements and obligations and a sufficient level of operating flexibility to fund Saipem's development plans, while maintaining an adequate finance structure in terms of debt composition and maturity.
Saipem has credit lines and financing sources available to cover its overall financial requirements. Through the transactions carried out on the banking and capital market, the Group has structured its sources of funding mainly along medium to long term maturity with an average tenor equal to 3.9 years as at June 30, 2018.
At June 30, 2018, Saipem has unused committed credit lines of €1,500 million, to which can be added the availability of cash at the same date of €1,655 million.
In addition to the above, Saipem may use the undrawn amount, equivalent to €266 million of the line guaranteed by GIEK for the company's purchases of equipment and services from Norwegian exporters and the undrawn amount of €20 million of the credit line guaranteed by Atradius.

(iv) Downgrading risk

S&P Global Ratings assigned Saipem a long term corporate credit rating equal to 'BB+', with a negative outlook; Moody's Investor Services assigned Saipem corporate family rating equal to 'Ba1', with a stable outlook.

Credit ratings influence the ability of the Group to obtain new loans, as well as the relevant cost. Consequently, should one or more ratings agencies lower the Company's rating, this could determine a worsening in the conditions for accessing financial markets.

Finance, trade and other payables

The following table shows the amounts of payments due. These are mainly financial payables, including interest payments.

(€ million)	Maturity						
	2019 (*)	2020	2021	2022	2023	After	Total
Long-term debt	491	139	600	585	560	635	3,010
Short-term debt	73	-	-	-	-	-	73
Derivative liabilities	97	10	-	-	-	-	107
Total	**661**	**149**	**600**	**585**	**560**	**635**	**3,190**
Interest on debt	97	68	67	51	36	32	351

(*) Includes the second half of 2018.

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

(€ million)	Maturity			
	2019	2020-2022	After	Total
Trade payables	2,159	-	-	2,159
Other payables	282	-	-	282

Outstanding contractual obligations

In addition to the financial and trade debt recorded in the balance sheet, the Saipem Group has contractual obligations relating to non-cancellable operating leases whose performance will entail payments being made in future years. The following table shows undiscounted payments due in future years in relation to outstanding contractual obligations.

(€ million)	Maturity					
	2019 (*)	2020	2021	2022	After	Total
Non-cancellable operating leases	171	108	78	73	147	577

(*) Includes the second half of 2018.

The table below summarises Saipem's capital expenditure commitments for property, plant and equipment, for which procurement contracts have been entered into.

(€ million)	Maturity
	2019 (*)
Committed on major projects	-
Other committed projects	70
Total	**70**

(*) Includes the second half of 2018.

Risks related to legal proceedings involving the Company

The Group is currently a party in judicial, civil, tax and administrative legal proceedings. For a summary of the most significant cases, see the note 'Guarantees, commitments and risks - Legal proceedings' in the 'Notes to the 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.
In addition, the progress of legal proceedings exposes the Company to potential impacts on its image and reputation in the mass media or with customers and partners.
In order to maximise mitigation of these risks, Saipem makes use of specialised external consultants who assist the Company in judicial, civil, tax or administrative proceedings.

Risks related to relations with strategic partners

Saipem carries out part of its business in partnerships, on the basis of contracts that include the joint liability of the Company in the event of breaches by partners or through the establishment of joint ventures with partners. Additionally, in some countries where it operates, the Group executes its own development programmes by means of joint venture agreements with local or international operators.
When the client suffers damage due to a breach of contract by a partner, Saipem may be obliged to complete the activities originally assigned to the non compliant partners or to pay damages caused by its partners, without prejudice to the possibility of exercising its right to claim for damages against the non compliant associated company.
Furthermore, relations with these partners could be affected by possible changes in the political, economic and social context of the countries in which Saipem operates.
In some circumstances, the Group may not be able to maximise the profitability of contracts executed in partnership due to the lower control exercised on the various phases of the project carried out by the partner.
In addition to the above, the possible lack of agreement with international or local partners regarding management methods of a project in the execution phase, could impact negatively on the capacity for development of certain projects on the part of the Saipem Group.
Moreover, any deterioration in relations with these strategic partners could influence the management of bids, with the potential of negatively influencing the possibility of acquiring new contracts over time.
Any interruption of said joint venture agreements or transfer of shares in mixed companies could result in the renegotiation of any previous contracts and possibly cause commercial and legal disputes with the relevant partners.
In order to mitigate these risks, Saipem is committed to maintaining long-term positive relationships with various local and international partners and resolving any emerging disputes with its strategic partners for business in the countries in which it already operates or is commercially interested in operating.
Moreover, Saipem implements a series of activities (for example, due diligence) aimed at identifying suitable partners to manage partnerships or joint ventures in compliance with the provisions of contracts with customers and company procedures in the various geographical area and business sectors in which Saipem operates.

Risks associated with the deterioration of commercial positioning

The market context is characterised by the ongoing downward trend in the price of oil which, beginning in July 2014, has been aggravated by lower global growth than expected, with a negative impact on world demand for oil and gas.
This condition influences the investment policies of the main clients, exposing Saipem to: (i) delays in the negotiation process and possible cancellation of commercial initiatives relating to future projects; (ii) cancellation and suspension of projects already underway (whether EPCI lump sum or Drilling services contracts); (iii) delays and difficulties in obtaining payment of contractual penalties provided for to indemnify the Company against the cancellation and suspension of such contracts; (iv) delays and difficulties in obtaining change orders for the scope of work requested by the client and executed by Saipem; (v) delays and difficulties in renewing leasing contracts for onshore and offshore drilling fleets prior to the expiry thereof and under economically advantageous terms and conditions; (vi) arbitration and international disputes in the most significant cases.
In addition, this context can lead to the risk of concentration of clients and projects in some geographical areas, despite Saipem pursuing commercial opportunities with a broad focus on various clients in the energy sector (International Oil Companies, National Oil Companies, Independent, Utility) and with a global perspective on reference markets.
In order to mitigate the reduction in CAPEX investments in the Oil & Gas sector by its customers, Saipem has developed a new business model based on five divisions: Offshore Engineering & Construction, Onshore Engineering & Construction, Offshore Drilling, Onshore Drilling and XSIGHT, the new division dedicated to engineering and other high value services. In addition, the Company has taken steps to expand its customer and geographic market portfolio and look for additional or alternative business sectors such as: (i) maintenance and optimisation of existing rigs (MMOs) related to investments in OPEX in the Oil & Gas sector; (ii) rigs for renewable sources (wind, solar); (iii) construction of pipelines and water networks for civil use and other industries; (iv) dismantling of oil platforms, including plug & abandonment activities (closure and abandonment); (v) construction of high-speed railway lines; (vi) high added value engineering services in the energy industry in general (including renewable energy).

Risks related to the Group's strategic positioning

The definition of strategies implemented by Saipem is based on analysis of macroeconomic and geopolitical scenarios of the relevant markets and the technological developments applied to them. Saipem also operates in an industry strongly characterised by strategic changes, also through the ever greater concentration of competitors via mergers and acquisitions operations and the creation of joint ventures and alliances locally or internationally.
Inadequate forecasts of the evolution of these scenarios, as well as the incorrect or delayed implementation of identified strategies may expose the Company to the risk of not being able to adjust the asset portfolio and therefore competitive positioning to changes in scenarios that are applicable to the reference industry.
Therefore, these risks potentially could result in a deterioration of strategic positioning within the sector, reducing market shares and the Group's margins.
In order to ensure a strengthening of the Group's competitive positioning in line with the evolving strategic changes of the industry and of the competition, Saipem has developed a divisional business model, ensuring greater proximity to the various business segments in which it operates together with a greater accountability for each division. Within this framework, Saipem has launched the 'Fit For the Future 2.0' initiative aimed at recovering efficiency and preparing the Company for the complexity of an increasingly challenging market.
Saipem avails itself of companies which are specialised in providing periodic analyses and estimates on relevant market segment trends and on macroeconomic, geopolitical and technological developments.
Furthermore, the Company created the Sustainability, Scenarios and Governance Committee, which is responsible for assisting the Board of Directors in their review and development of scenarios in order to prepare strategies.
Saipem's strategic positioning depends to a significant degree on the professional contribution of key personnel and highly specialised individuals. 'Senior Managers with strategic responsibilities' are considered key personnel (further information can be found in the specific detailed section in the '2018 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, regardless of any mitigation measures implemented by management, 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.
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.
With the aim of preventing and mitigating these risks, the Human Resources Department, in cooperation with the various company functions, uses integrated operational tools to support the management of specialist knowledge, managerial skills and professional development of key and specialised personnel and a mapping and analysis process for the skills and knowledge gained by resources during various operational experiences. Additionally, Saipem has defined a methodology for identifying strategic managerial successors, which allows for the availability of structured succession plans for such positions.
Lastly, Saipem defined the guidelines for the Group's remuneration policy in order to attract, motivate and retain highly professional and managerial resources and to align the interests of management with the primary objective of creating value for shareholders in the medium-long term (more information can be found in the specific 'Human resources' section).

Risks associated with fluctuation of floating capital

The aggravation of the market conditions and the financial position of clients can cause delays in both payments from the clients for the services provided based on the contractual provisions and acknowledgement and payment of change orders and claims relating to contracts under execution.
These cash flow fluctuations may occur despite the fact that the contractor and client cooperate in the search for an agreement that satisfies both parties, with the aim of not compromising the correct performance of works and of not delaying the completion of the project.
Specifically, with reference to the EPCI projects, the Group's cash flow is strongly conditioned by the structure of the contract negotiated with the client, who may require a significant commitment of financial resources both in the initial stages of the project (i.e. for the issuing of purchase orders to suppliers,

the mobilisation of personnel, as well as the mobilisation or technical preparation of the vessels involved) and in the subsequent phases for the achievement of the milestones agreed upon in the contract. Furthermore, in project execution phase, the contractor must negotiate payments in relation to variations in the scope of work requested by the client (variation orders) or for variations for the correct realisation of the work not requested explicitly by the client (claims).
The Offshore and Onshore Drilling market, on the other hand, is characterised by rates for the sale of related services, which include remuneration of the drilling rig used (usually property of the contractor), personnel and payment of ancillary costs (i.e. subcontractors for accessory services). Therefore, the related cash flows could deteriorate in the case of non-alignment between the payment of sales rates by the clients and payment to of operating costs to third parties.
The Company has equipped itself with various techniques that it implements beginning from the negotiation phase with the aim of obtaining the most favourable conditions, such as contractually agreed advance payments, and of monitoring its contracts through stringent procedures to obtain the certifications necessary to proceed to invoicing, or by constant reporting to the client of all changes to the contract or to project execution, so as to maintain positive or neutral cash flows during the various phases project execution. In spite of the activities the Company has put in place, the EPCI and Drilling projects could reduce floating capital, exposing the Group to economic and financial impacts, as well as affecting its reputation in the relevant industry and financial markets.

Risks related to the loss of effectiveness of business processes

The industry in which Saipem operates has gone through a period of great transformation characterised by a significant reduction in profit margins. The Company has launched several initiatives aimed at recovering efficiency, called 'Fit For the Future' in which particular emphasis was placed on the rationalisation of business processes.
The divisionalisation process occurred at the same time and had the aim of leading to a greater focus on business activities by allocating directly within the divisions many activities and processes that were previously monitored centrally. The need to change the organisation model, the complexity of the market context are elements that challenged Saipem's management over recent years.
The intervention of external factors linked to further changes and/or the need to prepare documentation to support the Company's position in various disputes currently under way may expose Saipem to a loss of effectiveness in its business processes.

Risks related to reduced profit margins

The Company operates in the highly competitive Oil & Gas services industry, the trend of which is significantly influenced by the price of oil in international markets.
The low price of oil 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 contracts known as lump sum turnkey in Offshore and Onshore Engineering & Construction services and for rates of vessels in the Offshore and Onshore Drilling market.
Specifically, the preparation of bids and the determination of price are the outcome of an accurate, precise and timely estimation exercise that involves various company departments and which is further integrated by a risk assessment to cover the areas of uncertainty inevitably present in each bid (so-called contingency). Despite these efforts made in the Company, over the life cycle of the contract the costs, revenues and, consequently, the margins that the company realises on lump sum contracts, could vary significantly compared to the sums originally estimated for many reasons linked, for example, to: (i) bad performance/productivity of vendors and subcontractors; (ii) bad performance/productivity of Saipem's workforce; (iii) changes in working conditions (so-called change order) not acknowledged by the customer; (iv) worse weather conditions than those anticipated against the statistics available at the time; and (v) a rise in the price of raw materials (e.g. steel, copper, fuel, etc.).
All of these factors in addition to other risks inherent in the sectors in which Saipem operates may imply additional costs, lost revenue and the subsequent reduction in margins from those originally estimated, leading to a decrease, perhaps even a significant one, of profitability or to losses on projects. The result of such significant differences could worsen the Group's economic-financial results and damage the Company's reputation in the relevant industry.
To align its cost and competitive profile to the current oil and gas price scenario, the Company is implementing a new business model based on the 'Fit For the Future 2.0' programme and has concluded the previous 'Fit For the Future' programme, whose various

initiatives also envisage rationalisation of structural, fabrication yard and vessel costs. In addition, in the current price of hydrocarbons market scenario, the Company is committed to identifying and implementing various new initiatives and solutions to reduce its costs through more efficient processes and technologies.

Risks related to technological development

The Engineering & Construction and Drilling sectors are characterised by the continuous development of the technologies, assets, patents and licenses used therein.
In order to maintain its competitive position, Saipem updates the technology, assets and licenses at its disposal, with the aim of aligning its offer of services to the current and future needs of the market.
Should the Company be unable to upgrade the technologies, assets, patents and licenses required to improve its operational performance, the Group would probably have to modify or reduce its short or long-term objectives.
Therefore, in addition to the extremely important experience of incremental research and development, which continues to be a key strategic point, Saipem has taken an initiative called the 'Innovation Factory', which is an incubator of ideas to develop 'disruptive' responses to face industry challenges.
An emerging area of interest for the 'Innovation Factory' is linked to technologies aimed at increasing energy efficiency in operations and technologies in the decarbonisation of energy (more information in the specific section 'Research and development').
Lastly, Saipem is supported by companies that specialise in analysing the technological evolution in the reference market segments and the prospective solutions that customers may require in subsequent years (for example, in the renewable energy sector).

Risks related to the supply chain

In executing its projects, and in the normal course of its activities, the Group relies on numerous vendors of goods and services and subcontractors and in some cases partners.
Any inadequate performances by vendors, subcontractors and partners could generate deficiencies in the supply chain and, consequently, lead to: (i) additional costs linked to the difficulty in replacing vendors the provide goods and services, subcontractors and partners identified to carry out the activities; (ii) the procurement of goods and services at higher prices; or (iii) delays in the completion and delivery of projects.
A deterioration in relations with vendors, subcontractors and partners could transform into a competitive disadvantage linked to a reduction in Saipem's negotiating power, with subsequent increases in time and costs, a worsening of contract terms and a deterioration of commercial relations with the client and in the Group's economic results.
With the aim of preventing and mitigating these risks, the Company has adopted a structured system of qualification and selection in order to work with reliable vendors and subcontractors with a consolidated reputation.
Moreover, Saipem has undertaken numerous operational and organisational initiatives that are included in the 'Fit For the Future' and 'Fit For the Future 2.0' programmes, in order to improve the effectiveness and efficiency of internal processes, which are also exposed to a series of risks of various kinds (for example, inadequate selection or incorrect stipulation of contractual clauses or requirements in terms of quality or quantity) impacting the performance of the projects of the various divisions.
In addition, Saipem is exposed to risks related to any unethical behaviour by vendors and subcontractors. Saipem mitigates and prevents these risks with various tools, audits (including due diligence) and training programmes. Saipem requires that vendors, subcontractors and partners, read and accept in its entirety its Model 231, including the Code of Ethics. This Model refers primarily to Legislative Decree No. 231/2001 and is also based on the principles of the Universal Declaration of Human Rights of the United Nations, the Fundamental Conventions of the ILO (International Labour Organization) and the OECD Guidelines for Multinational Enterprises (more information in the specific section of detail within the 'Consolidated Non-Financial Statements' which is part of the '2017 Annual Report').

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

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

As regards this risk, the Company carries out periodical audits and checks, including with the assistance of external consultants. Furthermore, even if Saipem has constantly updated, within all Group companies, its internal control system, the Model 231 which includes the Saipem Code of Ethics, as well as an organisation management and control model for Group companies (including those in foreign countries), it is not entirely possible to exclude the occurrence of fraudulent or unlawful conduct.
Saipem provides employees and stakeholders with an information channel (whistleblowing) overseen by the Compliance Committee which ensures confidentiality, through which it is possible to report any problems related to the internal control system, financial reporting, corporate administrative liability, fraud or other topics (i.e. violations of the Code of Ethics, mobbing, theft, personnel security, etc.). Further information can be found in the specific detailed section in the Board of Statutory Auditors' Report to the Shareholders' Meeting.
Furthermore, over the years Saipem has developed an anti-corruption management system for which it recently received certification for compliance with ISO 37001 - Anti-bribery Management Systems (published by the International Organization for Standardization - ISO). This result is an important safeguard in preventing and combating corruption, since ISO 37001 defines requirements and provides guidelines to help an organisation prevent, detect, respond to potential corruption, to comply with anti-corruption legislation and any other voluntary commitments applicable to their activities.
In the context of risks related to possible fraud or illegal activities by employees or third parties, Saipem is also exposed, in particular, to risks related to the protection of information and know-how, as the Company in the performance of its activities relies on information, data and know-how, of a sensitive nature, processed and contained in documents, also in electronic format, unauthorised access to which and disclosure of by employees or third parties may represent fraud or illegal activities, as well as causing damage to Saipem.
Although the Group adopts information security protocols and policies, it cannot be excluded that Saipem may have to face threats to the security of its information infrastructure or unlawful attempts to access its information system (cyber-attack) which could lead to the loss of data or damage to intellectual property and assets, as well as the extraction or alteration of information or the interruption of production processes. Furthermore, interruptions to or breakdowns in the information system could compromise the Group's operational effectiveness, provoking errors in the execution of operations, inefficiencies and procedural delays in the execution of activities. Additionally, the Company may have to deal with attempts to obtain physical or computer based access to personal, confidential or other sensitive information found within its facilities.
To manage these risks, it should be noted that Saipem uses advanced IT security technologies and a ICT Security Plan, in order to mitigate the exposure to the risk of data security threats in the context of the processing provided for by company IT systems (more information can be found in the specific 'Information system' section).
Lastly, the Company has adopted principles and rules to be followed by the Group in its internal management and external communication of corporate documents and information regarding Saipem, with particular reference to inside information (more information in the specific section within the 'Corporate Governance and Shareholding Structure Report').
Beginning in April 2018, Saipem developed an ad hoc Privacy Organisation Model aimed at guaranteeing compliance with the European directive on privacy (General Data Protection Regulation - GDPR). Despite the careful application of the aforementioned European regulation during the creation of this model, it is possible that there may be non-compliance or incorrect application of the model which could result in sanctions to the detriment of the Company.

Risks related to health, safety and the environment

The activities carried out by Saipem in both operational projects and projects related to upgrades, maintenance or disposal of assets, using internal staff and/or subcontractors, expose the company to potential accidents that may cause negative impacts on the health and safety of people and the environment. Additionally, Saipem is subject to laws and regulations for the protection of health, safety and the environment at national and international level when conducting its operations.
With reference to these risks, the Company has developed a HSE (Health, Safety and Environment) management system which is in line with the requirements of laws in force and with international standards ISO 14001 and OHSAS 18001, and for which Saipem has obtained certification for the whole Group. Specifically, HSE risk management is based on the principles of prevention, protection, awareness, promotion, and participation; its aim is to guarantee the workers' health and safety and to protect the environment and the general well-being of the community.

Despite the adoption of these procedures by Saipem, it cannot be excluded that, in the course of normal Group activities, events that could compromise the health of people or the environment may occur. Furthermore, the occurrence of such events could lead to civil and/or criminal sanctions against the parties responsible and, in some cases of violation of safety laws, to the application of the provisions of Italian Legislative Decree No. 231/2001, with subsequent costs linked to sanctions against the Company and to the fulfilment of legal and regulatory obligations concerning, health, safety and the environment, as well as an impact to Saipem's reputation.
Regarding the risks related to the safety and health of people, Saipem has undergone a series specific mitigation initiatives, among which please note:

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

Regarding the risks associated with safeguarding the environment, Saipem has developed a structured system of prevention, management and response to spills.
Regarding the risks related to environmental protection, Saipem has undergone various specific mitigation initiatives, among which please note:

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

Lastly, Saipem promotes initiatives aimed at saving water and managing water risk, for example the creation of the Water Management Plan (more information in the specific section of the 'Consolidated Non-Financial Statements' which is part of the '2017 Annual Report').
Moreover, in order to execute EPCI projects, drilling services and other services in the energy industry, the Group owns numerous assets, in particular specialised naval vessels (for example, for laying pipelines and lifting structures), offshore and onshore drilling rigs, production/treatment/storage and transport vessels commonly referred to as FPSO, Onshore equipment (for example, for pipe laying), manufacturing yard and logistics bases.
Specifically, with regard to all vessels in the Group's fleet, Saipem periodically renews certifications issued by the appropriate classification bodies and by flag state authorities. 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 which can impact security and the safety of personnel and the environment. These risks connected with ordinary operations can be caused by: (i) mistaken or inadequate execution of manoeuvres and work sequences that lead to damage for assets or facilities; 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. Therefore, to avoid and mitigate these risks, the Group sustains significant costs for the maintenance of its proprietary assets.
Lastly, Saipem has developed various prevention initiatives, including the application of the Asset Integrity Management System, a system that provides for the systematic management of critical elements, the identification of Key Performance Indicators and the creation of tasks familiarisation cards for managing the development of personnel assigned to specific roles or the use of critical equipment (more information in the specific section of detail within the 'Consolidated Non-Financial Statements' which is part of the '2017 Annual Report').

Risks related to the political, social and economic instability

Substantial portions of Saipem's operations are performed in countries which may be politically, socially or economically unstable. Developments in the political framework, economic crises, internal social unrest and conflicts and embargoes with other countries may temporarily or permanently compromise the 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. Moreover, Saipem's operations, staff, and assets can be found in many countries which are potentially exposed to the threat of terrorism on a global scale by various types of extremist groups.
Saipem is committed to constantly and closely monitoring the political, social and economic developments and terrorist threats in the countries of interest, both through specialised Group resources and through providers of security services and information analyses.
Therefore, Saipem periodically monitors these political, social and economic risks in the countries it operates in or intends to invest in based on a specific risk assessment model. Specifically, Saipem has adopted an articulate security model based on the criteria of prevention, precaution, protection, information, promotion and participation, with the objective of reducing risks deriving from the actions of physical or legal persons who expose the Company and its assets, people, goods, image and reputation to potential damage. In particular, in order to prevent these risks, Saipem also makes use of agencies that provide security services in the countries in which it operates. These agencies could expose Saipem to risks related to the violation of human rights in the execution of security services which they provide, for this reason the mitigation actions implemented by Saipem consist of training activities and regular controls.
In cases where Saipem's ability to operate is compromised, demobilisation is planned according to the criteria of protecting personnel and if necessary company assets and of minimising interruptions to operations through the adoption of solutions that render more rapid and less costly the recommencement of ordinary activities once favourable conditions are restored.
These measures can increase costs and delays and have a negative impact on the margin of projects executed in such countries. Additional risks associated with operations in these countries are: (i) the absence of a stable legislative framework and the change of the rules and regulations valid within the territory where it is operating, including laws that implement international protocols or conventions for that sector of activity; (ii) uncertainty over the protection of the foreign company's rights in the event of contractual violation by private companies or state entities; (iii) penalising developments or applications of laws, regulations, unilateral contract amendments which reduce the value of the assets, forced divestment and expropriation; (iv) restrictions of varying nature on the activities of construction, drilling, import and export; (v) changes in local regulations that impose the use of certain numbers of staff, and goods and services supplied by local companies (so-called local content); (vi) changes of national tax regimes, tax incentives, rulings with the tax authorities, international tax treaties and, in addition, risks associated with their application and interpretation in the countries where the Group companies operate.
Moreover, amongst other things the regulatory framework also impacts the methods with which Saipem carries out its activities. Any adoption of more restrictive or unfavourable regulations, or the imposition of obligations for compliance, or further requirements linked to Engineering & Construction and Drilling activities, may lead to changes in operating conditions and require an increase in investments, production costs or, at any rate, to a slow-down in the development of activities. Any violations of health, safety and environmental laws could lead to limitations to the Group's activities or to fines, sanctions or penalties in the event of non-compliance with environmental and health and safety laws and regulations.
For this reason, Saipem constantly monitors changes in the regulations and compliance with them in order to minimise the impacts due to its operating activities in all countries of interest through internal resources and specialised consultants.
Lastly, in support of its presence in the countries and in order to mitigate the impact of its operating activities on local economies and the risks generated by relationships with subjects operating in the same areas, Saipem adopts a system of engagement with its local stakeholders, with the goal of maintaining dialogue and consolidating relationships and creating shared value, especially through active participation in the socio-economic development of the areas in which it operates (more information in the specific section within the 'Consolidated Non-Financial Statements' which is part of the '2017 Annual Report').
Furthermore, considering that Saipem carries out its business activities in a global context characterised by the management of diversity deriving from socio-economic, political, industrial and regulatory contexts, the Group is exposed to multiple situations regarding relations with staff and, where present, with trade unions. Such relationships, if not properly managed, can expose the Company to risks associated with relationships with personnel and possibly with trade unions which, can generate extra costs and impact the timing of the activities carried out in Saipem's operational offices and projects, as well as having negative repercussions on the Company's image and reputation.
In addition, Saipem has faced and is continuing

to manage the complex adjustment of the workforce to the significant changes in the market in which it operates and the introduction of a new divisional business model, as well as organisational and procedural changes based on the programmes. 'Fit For the Future' and 'Fit For the Future 2.0', taking into account the relationships with both the staff and with trade unions.
In fact, in order to mitigate and prevent these risks, Saipem has configured an approach of maximum awareness to industrial relations in the countries in which it operates.
Specifically, Saipem is committed to strengthening relations and communication with staff, trade unions and reaching and renewing specific agreements with the social partners involved (more information in the specific section within the 'Consolidated Non-Financial Statements' which is part of the '2017 Annual Report').

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

In accordance with common practice in the Oil & Gas industry, Saipem 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, in line with international accounting standards published by the International Accounting Standards Board and ratified by the European Union (IFRS).
Consequently, Saipem's management periodically analyses the contract value and the estimation of costs during works execution and reflects any rectifications made in proportion to the percentage of the project completed in the period.
In the event that these adjustments result in a reduction of the margins previously recognised in relation to a project, the Company is necessarily compelled to reconcile the result of that project. This reconciliation may be material and represent a reduction in the net income for the year against which the adjustment is recorded.
The current estimates of contract costs and therefore the profitability of our long-term projects, even if reasonably reliable at the time they are carried out, could change due to the uncertainties associated with these types of contracts being influenced, for example, other than by trends in the reference market, but also by climatic factors and changes in the planning and execution of activities related to individual work packages. In the event of significant cost adjustments, the reductions in profit over the whole project life cycle may cause a material impact on the current financial year and on future years.
Furthermore, change orders, which are an ordinary and recurring part of Saipem's activities, may increase (sometimes substantially) the scope of work and hence the costs associated with it.
Therefore, change orders, even if beneficial in the long term, can have the effect in the short term, if not approved by the client in a timely and adequate manner, of reducing the overall margin of the project with which they are associated.
In the event of a significant review of cost estimations or of revenues on a project, the Group would be obliged to effect adjustments of those estimates. Although the actual estimations on multi-year projects are deemed correct and are carefully measured, the Group is nevertheless exposed to risks related to the possible volatility of progress in execution phase.
In addition, the disputes associated with change orders may lead to a reduction in revenues and margins previously declared and hence in current profit.
To mitigate the effects of these risks, over the years Saipem has developed an accurate and detailed process of constant and timely monitoring of the economic and financial performance of the projects.
Additionally, Saipem regularly performs a timely exercise in estimating and assessing the value of contracts and costs together with detailed risk assessments to cover any areas of uncertainty that are inevitably present in each project (so-called contingencies).
Lastly, these assessments and estimates are constantly monitored by Saipem also through the Internal Control System on Financial Reporting in compliance with Legislative Decree No. 58 (Consolidated Financial Act).

Transfer of risks to the insurance market

In close cooperation with top management the Corporate insurance function annually defines the Saipem Group's guidelines on insurance coverage against residual risks of material damages and civil liability, and those deriving from contracts taken on.
An insurance programme is defined on the basis of the guidelines, which identifies specific excess and maximum limit coverage for each type of risk based on an analysis that takes into account claim records for recent years, industry statistics and conditions offered by the international insurance market.
The Saipem insurance programme is structured in such a way as to appropriately transfer risks deriving from operations to the insurance market, in particular the risks associated with the management of the fleet, equipment and other assets, including third party liability risks and risks deriving from the performance of contracts awarded by its clients.

Given the coverage that is offered by the insurance market and the changing circumstances on the energy market in which Saipem operates, it is not possible to guarantee that all circumstances and events will be adequately covered by the insurance programme. Equally, due to the volatility of the insurance market, it cannot be guaranteed that it will be possible in the future to reasonably maintain adequate insurance coverage at the current rates, terms and conditions.
Within the Saipem insurance programme, a distinction can be made between insurance cover for Group assets ('Corporate insurance policies') and the insurance cover connected with project execution.

Corporate insurance policies

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

Material damages

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

Third-party liability

- 'Protection & Indemnity' ('P&I') policy: shipowners' liability cover through a P&I Club that is part of the International Group of P&I Clubs for events occurring during transit and 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;
- 'Directors & Officers' ('D&O') policy: it covers the responsibility of the administrative and control bodies, as well as managers, of the Company and its subsidiaries in the performance of their mandates and duties.

A key tool in the management of Saipem's insurable risks is Sigurd Rück AG, a captive reinsurance company, which operates to cover the first level of risk. Sigurd Rück AG in turn carries out risk mitigation by re-insuring its portfolio on primary securities markets.

Insurance policies relating to the execution of projects

For all contracts assigned there must be specific project insurance coverage in place and said coverage generally falls within the client's contractual scope of responsibility.
In cases where such coverage instead falls within the contractor's scope of responsibility, Saipem defines an insurance suitable for covering all project-related risks, for the entire term.
Usually it takes out 'Builders' All Risks' insurance, which covers the scope of work of the contract, i.e. damage to the works under construction, as well as to equipment, products and materials required for its construction and third party liability for all works to be performed by the Group during all phases of project execution (engineering, transportation, construction, assembly, testing), including the contractual guarantee period.
The high level of insurance premiums and excess amounts payable on these policies lead Saipem to implement continual improvement of prevention and protection processes in terms of quality, health, safety and environmental impact.

ADDITIONAL INFORMATION

Regulation on Markets

Article 15 (former Article 36) of Consob Regulation on Markets (adopted with Resolution No. 20249 of December 28, 2017): conditions for the listing of shares of companies with control over companies established and regulated under the law of non-EU countries

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

i. as at June 30, 2018, the regulatory provisions of Article 15 of the Regulation on Markets applied to the following 19 subsidiaries:
- Saudi Arabian Saipem Ltd;
- Petrex SA;
- Snamprogetti Saudi Arabia Co Ltd Llc;
- Saipem America Inc;
- PT Saipem Indonesia;
- Saipem do Brasil Serviçõs de Petroleo Ltda;
- Boscongo SA;
- Saimexicana SA de Cv;
- Saipem Canada Inc;
- Saipem Services Mexico SA de Cv;
- Saipem Misr for Petroleum Services (S.A.E.);
- Sigurd Rück AG;
- Sajer Iraq for Petroleum Services, Trading, General Contracting & Transport Llc;
- Saipem Offshore Norway AS;
- Saipem Drilling Norway AS;
- Snamprogetti Engineering & Contracting Co Ltd;
- Saipem Contracting Nigeria Ltd;
- ER SAI Caspian Contractor Llc;
- Global Petroprojects Services AG.

ii. Procedures designed to ensure full compliance with the aforementioned regulations have been adopted.

Disclosure of transactions with related parties

Transactions concluded by Saipem with related parties essentially regard the exchange of goods, the supply of services, the provision and utilisation of financial resources including entering into derivatives contracts. All transactions form part of ordinary operations, are settled at market conditions, i.e. at the conditions that would have applied between two independent parties, and are concluded in the interest of Group companies.
Directors, auditors, general managers and senior managers with strategic responsibilities must declare, every 6 months, any transactions they enter into with Saipem SpA or its subsidiaries, directly or through a third party. Directors and Statutory Auditors release every six months and/or in the event of a change, a statement in which each potential interest is represented in relation to the Company and the Group and in any case report to the Chief Executive Officer (or the Chairman where the Chief Executive Officer is involved), who informs the other directors and the Board of Statutory Auditors of the individual transactions that the company intends to perform, in which they have direct interests.
At June 30, 2018, Saipem SpA is not subject to the management and coordination of other parties. Saipem SpA directs and coordinates its own subsidiaries pursuant to Article 2497 ff. of the Italian Civil Code.
The amounts of trade, financial or other operations with related parties are provided in Note 49 to the 'Notes to the condensed consolidated interim financial statements'.

Outlook

2018 is expected to be characterised by a market scenario with weak signs of recovery, as the recent growth in the oil price has not, at the moment, determined a decisive acceleration of Oil Companies investment programmes, even though some positive signs in some segments have been noted.
The backlog at the end of June 2018, combined with forecasts of commercial offers in progress, allow forecasts of around €8 billion for the financial year 2018, with a margin in terms of adjusted EBITDA of over 10%.
Capital expenditure will amount to approximately €500 million. Net debt is expected to be around €1.3 billion at the end of 2018.

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

Events subsequent to period end

Renewal of the EMTN Programme

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

Stock incentive plan

On July 24, 2018, the Board of Directors at the proposal of the Compensation and Nomination Committee, voted to carry out the 2018 implementation of the 2016-2018 Long-Term Incentive Plan ('Plan') approved by the Shareholders' Meeting on April 29, 2016. The Board of Directors set at 7,555,655 the total number of treasury shares required to implement the Plan and vested the CEO with the task of identifying the beneficiaries of the 2018 allocation.

Shareholders' Agreement

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

New contracts

On July 25, 2018, Saipem has been awarded a contract in Saudi Arabia by Saudi Arabian Oil Co (Saudi Aramco) for procurement and construction in relation to the 'South Gas Compression Plant Pipelines' project for the development of the Haradh gas plant (HdGP), located in the east of the country. The project comes under the Southern Area Energy Efficiency Program. The scope of work encompasses the construction of a system of pipelines of various diameter, with an overall length of over 700 km, and includes flowlines, trunklines and transmission lines, as well as associated facilities for the transportation of gas from various points of storage and distribution inside the plant.
Further contracts has been awarded by ExxonMobil Iraq Ltd for the DS6 project for the debottlenecking of the West Qurna field, in the south-east of Iraq; by Petróleos Mexicanos (Pemex), the national Mexican oil company for works in the 'Miguel Hidalgo refinery located in Tula de Hallende.
The total amount of these acquisition amounted to USD 800 million.

Extension of the revolving credit facility

On July 30, 2018, Saipem informs that it entered into an agreement with a group of seventeen national and international banks to extend and amend the Revolving Credit Facility originally signed on December 10, 2015. The agreement provides for the extension of the maturity of the facility from December 2020 to July 2023, the reduction of the amount from the original €1.5 billion to €1.0 billion, as deemed more appropriate in light of the current and prospective liquidity of the Saipem Group, and the improvement of certain economic conditions. The facility will be available during the next five years for general corporate purposes. The transaction further strengthens the financial structure of the Saipem Group and confirms the excellent cooperation with its key national and international relationship banks.

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)	January 1, 2018		June 30, 2018	
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		4,581		4,481
Note 13 - Property, plant and equipment	*4,581*		*4,481*	
B) Net intangible assets		753		693
Note 14 - Intangible assets	*753*		*693*	
C) Investments		141		91
Note 15 - Investments	*143*		*122*	
Reclassified from E) - provisions for losses related to investments	*(2)*		*(31)*	
D) Working capital		909		782
Note 8 - Trade and other receivables	*2,362*		*2,502*	
Reclassified to I) - financing receivables not related to operations	*(2)*		*(2)*	
Note 9 - Inventories and contract assets	*1,893*		*1,727*	
Note 10 - Current tax assets	*213*		*205*	
Note 11 - Other current tax assets	*221*		*246*	
Note 12 - Other current assets	*185*		*106*	
Reclassified to I) - financing receivables not related to operations	*-*		*-*	
Note 16 - Deferred tax assets	*268*		*271*	
Note 17 - Other non-current assets	*102*		*86*	
Note 19 - Trade and other payables and contract liabilities	*(4,036)*		*(3,904)*	
Note 20 - Income tax payables	*(47)*		*(74)*	
Note 21 - Other current tax payables	*(191)*		*(212)*	
Note 22 - Other current liabilities	*(24)*		*(132)*	
Note 26 - Deferred tax liabilities	*(34)*		*(27)*	
Note 27 - Other non-current liabilities	*(1)*		*(10)*	
E) Provisions for contingencies		(338)		(314)
Note 24 - Provisions for contingencies	*(340)*		*(345)*	
Reclassified to C) - provisions for losses related to investments	*2*		*31*	
F) Provisions for employee benefits		(199)		(209)
Note 25 - Provisions for employee benefits	*(199)*		*(209)*	
EMPLOYED CAPITAL, NET		**5,847**		**5,524**
G) Shareholders' equity		4,510		4,140
Note 30 - Saipem's shareholders' equity	*4,510*		*4,140*	
H) Non-controlling interests		41		59
Note 29 - Non-controlling interests	*41*		*59*	
I) Net debt		1,296		1,325
Note 6 - Cash and cash equivalents	*(1,751)*		*(1,655)*	
Note 7 - Financial assets measured at fair value through OCI	*(69)*		*(68)*	
Note 18 - Short-term debt	*120*		*73*	
Note 23 - Long-term debt	*2,929*		*2,900*	
Note 23 - Current portion of long-term debt	*69*		*77*	
Reclassified from D) - financing receivables not related to operations (Note 8)	*(2)*		*(2)*	
FUNDING		**5,847**		**5,524**

Reclassified income statement

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

- the item 'other income and revenues' (€5 million) relating to 'reimbursements for services that are not part of core operations' (€5 million), were recognised in the reclassified income statement as a reduction in the related costs;
- 'finance income' (€127 million), 'finance expenses' (-€152 million) and 'derivatives' (-€55 million), which are indicated separately under the statutory scheme, are stated under the item 'finance (expense) income' (-€80 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' (€228 million), 'net impairment of tangible and intangible assets' (€256 million), 'other changes' (-€38 million), 'change in the provision employee benefits' (€9 million) and 'effect of accounting using the equity method' (€49 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' (€504 million);
- the items 'income taxes' (€95 million), 'interest expense' (€46 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' (€138 million);
- the items regarding changes in 'trade receivables' (-€121 million), to changes in 'inventories and contract assets' (€183 million), to 'provisions for contingencies' (-€20 million), to 'trade payables and contract liabilities' (-€49 million) and 'other assets and liabilities' (€53 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' (€46 million);
- the items 'interest received' (€3 million), 'dividends received' (€1 million), 'income taxes paid net of refunds of tax credits' (-€64 million) and 'interest paid' (-€43 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' (-€103 million);
- the items relating to investments in 'tangible assets' (-€308 million) and 'intangible assets' (-€5 million), indicated separately and included in cash flow from investing activities in the statutory scheme, are shown net under the item 'capital expenditure' (-€313 million);
- the items 'proceeds from long-term debt' (€110 million), 'increase (decrease) in short-term debt' (-€50 million) and 'repayments of long-term debt' (-€131 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' (-€71 million).

All other items are unchanged.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Balance sheet

(€ million)	Note	Dec. 31, 2017 Total	Dec. 31, 2017 of which with related parties [1]	June 30, 2018 Total	June 30, 2018 of which with related parties [1]
ASSETS					
Current assets					
Cash and cash equivalents	(No. 6)	1,751		1,655	
Financial assets measured at fair value through OCI	(No. 7)	69		68	
Trade and other receivables	(No. 8)	2,411	402	2,502	740
Inventories	(No. 9)	319		308	
Contract assets	(No. 9)	1,574		1,419	
Current tax assets	(No. 10)	213		205	
Other current tax assets	(No. 11)	221		246	
Other current assets	(No. 12 and 28)	185	1	106	-
Total current assets		**6,743**		**6,509**	
Non-current assets					
Property, plant and equipment	(No. 13)	4,581		4,481	
Intangible assets	(No. 14)	753		693	
Investments accounted for using the equity method	(No. 15)	142		121	
Other investments	(No. 15)	1		1	
Deferred tax assets	(No. 16)	268		271	
Other non-current assets	(No. 17 and 28)	102	1	86	1
Total non-current assets		**5,847**		**5,653**	
TOTAL ASSETS		**12,590**		**12,162**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	(No. 18)	120		73	
Current portion of long-term debt	(No. 23)	69		77	
Trade and other payables	(No. 19)	2,571	58	2,441	82
Contract liabilities	(No. 19)	1,465	188	1,463	48
Income tax payables	(No. 20)	47		74	
Other current tax payables	(No. 21)	191		212	
Other current liabilities	(No. 22 and 28)	24	5	132	-
Total current liabilities		**4,487**		**4,472**	
Non-current liabilities					
Long-term debt	(No. 23)	2,929		2,900	
Provisions for contingencies	(No. 24)	340		345	
Provisions for employee benefits	(No. 25)	199		209	
Deferred tax liabilities	(No. 26)	35		27	
Other non-current liabilities	(No. 27 and 28)	1		10	
Total non-current liabilities		**3,504**		**3,491**	
TOTAL LIABILITIES		**7,991**		**7,963**	
SHAREHOLDERS' EQUITY					
Non-controlling interests	(No. 29)	41		59	
Saipem's shareholders' equity:	(No. 30)	4,558		4,140	
- share capital	(No. 31)	2,191		2,191	
- share premium reserve	(No. 32)	1,049		553	
- other reserves	(No. 33)	(44)		(86)	
- retained earnings		1,786		1,900	
- net profit (loss) for the period		(328)		(323)	
- negative reserve for treasury shares in portfolio	(No. 34)	(96)		(95)	
Total shareholders' equity		**4,599**		**4,199**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**12,590**		**12,162**	

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

Income statement

(€ million)	Note	First half 2017 Total	First half 2017 of which with related parties [1]	First half 2018 Total	First half 2018 of which with related parties [1]
REVENUES					
Net sales from operations	(No. 36)	4,590	1,042	3,798	1,018
Other income and revenues	(No. 37)	5		6	
Total revenues		**4,595**		**3,804**	
Operating expenses					
Purchases, services and other costs	(No. 38)	(3,276)	(33)	(2,661)	(31)
Net reversals (impairments) of trade and other receivables	(No. 39)	8		3	
Payroll and related costs	(No. 40)	(854)		(738)	
Depreciation, amortisation and impairment	(No. 41)	(349)		(484)	
Other operating income (expense)	(No. 42)	-		2	
OPERATING RESULT		**124**		**(74)**	
Finance income (expense)					
Finance income		129		127	
Finance expense		(316)		(152)	
Derivative financial instruments		72		(55)	
Total finance income (expense)	(No. 43)	**(115)**		**(80)**	
Income (expense) from investments					
Share of profit (loss) of equity accounted investments		2		(49)	
Other income from investments		-		-	
Total income (expense) from investments	(No. 44)	**2**		**(49)**	
RESULT BEFORE INCOME TAXES		**11**		**(203)**	
Income taxes	(No. 45)	(110)		(95)	
NET PROFIT (LOSS) FOR THE PERIOD		**(99)**		**(298)**	
Attributable to:					
- Saipem		(110)		(323)	
- non-controlling interests	(No. 46)	11		25	
Earnings (losses) per share attributable to Saipem (€ per share)					
Basic earnings (losses) per share	(No. 47)	(0.11)		(0.32)	
Diluted earnings (losses) per share	(No. 47)	(0.11)		(0.32)	

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

Statement of comprehensive income

(€ million)	First half 2017	First half 2018
Net profit (loss) for the period	**(99)**	**(298)**
Other items of comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans for employees	-	-
Change in the fair value of investments measured at fair value through OCI	-	-
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	218	(80)
Change in the fair value of financial assets, other than investments, measured at fair value through OCI	-	(1)
Exchange rate differences arising from the translation into euro of financial statements currencies other than euro	(108)	21
Share of other comprehensive income of investments accounted for using the equity method	-	-
Income tax relating to items that will be reclassified	(51)	13
Total other items of comprehensive income net of taxation	**59**	**(47)**
Total comprehensive income (loss) for the period	**(40)**	**(345)**
Attributable to:		
- Saipem Group	(49)	(371)
- non-controlling interests	9	26

Statement of changes in shareholders' equity

(€ million)	Saipem shareholders' equity														Minority interest	Total shareholders' equity
	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Investments carried at fair value	Cash flow hedge reserve, net of tax	Fair value reserve financial instruments available for sale net of tax effects	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings (losses carried forward)	Net profit (loss) for the period	Negative reserve for treasury shares in portfolio	Total		
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	-	-	-	-	-	-	-	-	-	-	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**
Net profit (loss) for the second half of 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(218)**	**-**	**(218)**	**10**	**(208)**
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	-	-	-	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
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	-	-	-	-	-	-	56	-	-	-	-	-	-	56	1	57
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	-	-	(65)	-	(1)	-	-	(66)	(2)	(68)
Share of other comprehensive income of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change to fair value financial instruments available for sale net of tax effects	-	-	-	-	-	-	-	(1)	-	-	-	-	-	(1)	-	(1)
Total	**-**	**-**	**-**	**-**	**-**	**-**	**56**	**(1)**	**(65)**	**-**	**(1)**	**-**	**-**	**(11)**	**(1)**	**(12)**

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

	Saipem shareholders' equity															
(€ million)	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Investments carried at fair value	Cash flow hedge reserve, net of tax	Fair value reserve financial instruments available for sale net of tax effects	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings (losses carried forward)	Net profit (loss) for the period	Negative reserve for treasury shares in portfolio	Total	Minority interest	Total shareholders' equity
Total comprehensive income (loss) for the second half of 2017	**-**	**-**	**-**	**-**	**-**	**-**	**56**	**(1)**	**(65)**	**(1)**	**(1)**	**(218)**	**-**	**(230)**	**9**	**(221)**
Transactions with shareholders																
Dividend distribution second half of 2017	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7)	(7)
Capitalisation of costs of share capital increase net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	-	-	-	(27)	(27)	-	(27)
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(27)**	**(27)**	**(7)**	**(34)**
Other changes in shareholders' equity																
Fair value of Stock Grant Plan	-	-	-	-	-	-	-	-	-	-	8	-	-	8	-	8
Other changes	-	-	-	-	-	1	-	-	1	-	(12)	-	-	(10)	11	1
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**	**-**	**(4)**	**-**	**-**	**(2)**	**11**	**9**
Balance at December 31, 2017	**2,191**	**1,049**	**2**	**88**	**-**	**1**	**41**	**(1)**	**(154)**	**(21)**	**1,786**	**(328)**	**(96)**	**4,558**	**41**	**4,599**
Changes to accounting standards - Application of IFRS 9	-	-	-	-	-	-	-	-	-	-	(28)	-	-	(28)	-	(28)
Changes to accounting standards - Application of IFRS 15	-	-	-	-	-	-	-	-	-	-	(20)	-	-	(20)	-	(20)
Balance after account standard changes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(48)**	**-**	**-**	**(48)**	**-**	**(48)**
Balance at January 1, 2018	**2,191**	**1,049**	**2**	**88**	**-**	**1**	**41**	**(1)**	**(154)**	**(21)**	**1,738**	**(328)**	**(96)**	**4,510**	**41**	**4,551**
Net profit (loss) for the first half of 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(323)**	**-**	**(323)**	**25**	**(298)**
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																
Change in fair value of investments measured at fair value through OCI																
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	-	-	-	-	-	-	(67)	-	-	-	-	-	-	(67)	-	(67)
Change in the fair value of financial assets, other than investments, measured at fair value through OCI	-	-	-	-	-	-	-	(1)	-	-	-	-	-	(1)	-	(1)
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	-	-	26	-	(6)	-	-	20	1	21
Share of other comprehensive income of investments accounted for using the equity method																
Total	**-**	**-**	**-**	**-**	**-**	**-**	**(67)**	**(1)**	**26**	**-**	**(6)**	**-**	**-**	**(48)**	**1**	**(47)**
Total recognised income (expense) for the first half of 2018	**-**	**-**	**-**	**-**	**-**	**-**	**(67)**	**(1)**	**26**	**-**	**(6)**	**(323)**	**-**	**(371)**	**26**	**(345)**
Transactions with shareholders																
Dividend distribution first half of 2018	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8)	(8)
Retained earnings (losses)	-	(496)	-	-	-	-	-	-	-	-	168	328	-	-	-	-
Increase (reduction) of share capital																
Capitalisation of costs of share capital increase net of taxes																
Treasury shares repurchased																
Total	**-**	**(496)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**168**	**328**	**-**	**-**	**(8)**	**(8)**
Other changes in shareholders' equity																
Fair value of Stock Grant Plan	-	-	-	-	-	-	-	-	-	-	4	-	1	5	-	5
Other changes	-	-	-	-	-	-	-	-	-	-	(4)	-	-	(4)	-	(4)
Transactions with companies under common control																
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**1**
Balance at June 30, 2018	**2,191**	**553**	**2**	**88**	**-**	**1**	**(26)**	**(2)**	**(128)**	**(21)**	**1,900**	**(323)**	**(95)**	**4,140**	**59**	**4,199**

Cash flow statement

(€ million)	Note	First half 2017	First half 2018
Net profit (loss) for the period		(110)	(323)
Non-controlling interests		11	25
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:			
- depreciation and amortisation	(No. 41)	264	228
- net impairment (reversals) of tangible and intangible assets	(No. 41)	85	256
- share of profit (loss) of equity accounted investments	(No. 44)	(2)	49
- net (gains) losses on disposal of assets		1	1
- interest income		(3)	(3)
- interest expense		37	46
- income taxes	(No. 45)	110	95
- other changes		121	(38)
Changes in working capital:			
- inventories and contract assets		67	183
- trade receivables		206	(121)
- trade payables and contract liabilities		(262)	(49)
- provisions for contingencies		9	(20)
- other assets and liabilities		(219)	53
Cash flow from working capital		*(199)*	*46*
Change in the provision for employee benefits		3	9
Dividends received		-	1
Interest received		3	3
Interest paid		(25)	(43)
Income taxes paid net of refunds of tax credits		(233)	(64)
Net cash provided by operating activities		**63**	**288**
of which with related parties (1)	(No. 49)	**929**	**533**
Investing activities:			
- tangible assets	(No. 13)	(145)	(308)
- intangible assets	(No. 14)	(2)	(5)
- investments	(No. 15)	(9)	-
- financing receivables		(5)	-
- change in payables and receivables in relation to investments and capitalised depreciation		-	-
Cash flow from investing activities		*(161)*	*(313)*
Disposals:			
- tangible assets		6	-
- consolidated subsidiaries and businesses		-	-
- investments		1	-
- financing receivables		7	-
Cash flows from disposals		*14*	-
Net cash used in investing activities (2)		**(147)**	**(313)**
of which with related parties (1)	(No. 49)	**-**	**-**
Proceeds from long-term debt		(5)	110
Repayments of long-term debt		(7)	(131)
Increase (decrease) in short-term debt		50	(50)
		38	**(71)**
Net capital contributions by non-controlling interests		(2)	-
Dividend distribution		-	(15)
Sale (buy-back) of treasury shares		-	-
Net cash from financing activities		**36**	**(86)**
of which with related parties (1)	(No. 49)	**-**	**-**
Effect of changes in consolidation		-	-
Effect of exchange rate changes and other changes on cash and cash equivalents		(33)	15

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

cont'd **Cash flow statement**

(€ million)	Note	First half 2017	First half 2018
Net cash for the period		**(81)**	**(96)**
Cash and cash equivalents - beginning of period	(No. 6)	**1,892**	**1,751**
Cash and cash equivalents - end of period	(No. 6)	**1,811**	**1,655**

(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 2017	First half 2018
Financing investments:		
- financing receivables	(2)	-
Disposals of financing investments:		
- financing receivables	4	-
Net cash flows from investments/disposals related to financing activities	**2**	**-**

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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 condensed consolidated interim financial statements at June 30, 2018 have been prepared in accordance with the same principles of consolidation and evaluation criteria described in the 2017 Annual Report to which reference is made, with the exception of the International Accounting Standards that came into effect as of January 1, 2018, as illustrated in the 'Recent accounting principles' section of said report. In particular, for the purposes of the half-year financial statements at June 30, 2018, the provisions of IFRS 15 'Revenues from contracts with customers' (in addition to the related clarifications in the document 'Clarifications of IFRS 15 - Revenues from contracts with customers') and IFRS 9 'Financial Instruments' are relevant and summarised below.

IFRS 15 provides the criteria for the recognition and measurement of revenue from contracts with customers provided that the recognition of revenues is based on the following 5 steps: (i) identify the contract with the customer; (ii) identify the performance obligations to provide goods and/or services in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contracts based on each good or service stand-alone selling price; (v) recognise revenue when (or as) the entity satisfies a performance obligation.

As already illustrated in the preparation of the Annual Report, for Saipem the areas involved concern mainly:

(i) identification of possible distinct performance obligations;
(ii) recognition overtime of revenues and determination of the transaction price;
(iii) methods and time frames for recognising contractual variations;
(iv) recognition of certain costs for which the new standard requires capitalisation: i.e. pre-engineering costs and costs for the preparation of the assets used.

With regard to IFRS 9, the new provisions: (i) change the classification and measurement model for financial assets basing it on the characteristics of the financial instrument and the business model adopted by the company; (ii) introduce a new impairment model for financial assets that addresses expected credit losses; and (iii) introduce in new hedge accounting requirements. The following impacts for Saipem are reported with reference to the three areas affected by the new provisions:

(i) classification and evaluation: the new method for classifying and evaluating financial assets that represent debt instruments does not entail significant changes. With regard to financial assets, that represent an interest that is different from controlling interest, joint control or influence, which were evaluated at fair value with the recognition of effects in the shareholders' equity reserve until their write-down and/or maturity which is when the effects are recognised in the income statement, for the instruments in the portfolio at the closing date of the period the Group decided to avail itself of irrevocable election connected to the measurement of these instruments at fair value with the recognition of the effects in the shareholders' equity reserve without possibility of recycling;
(ii) impairment: the management model adopted by the Group envisages the simplified approach for trade receivables which do not contain a significant financial component, which requires the valuation of the provision for the coverage of losses for an amount equal to the expected losses over the entire life of the loan. This approach uses the probability of default of customers based on observable market data and on informations collected by info-providers for the quantification of the expected losses. Given the specific nature of the type of business in which Saipem operates, mainly long-term contracts with continuously updated assessments of the entire life of the project and with a narrow range of customers consisting mostly of Major Oil Companies, provisions for credit losses are made after a careful analysis of the individual overdue receivables that actually already includes a forward view of the project.
With the adoption of the new standard, there is also an evaluation of the customer's creditworthiness, which therefore does not have a significant impact. The three-stage management model was instead adopted for the impairment test of financial assets measured at fair value with the recognition of the effects in the shareholders' equity reserve;
(iii) hedge accounting: the management model currently adopted by the Group is in line with

the new provisions introduced by IFRS 9 regarding hedge accounting. The analysis carried out by a dedicated work group in 2017, aimed at identifying possible optimisations in hedge accounting strategies also in light of the new features and simplifications introduced by the new standard, ended with a plan to update the current management model, whose activities are currently ongoing. Therefore, in 2018 Saipem will proceed in continuity with the current management model, while the new model identified will be fully adopted by the Group starting from January 1, 2019.

In line with provisions of IAS 34, the notes to these financial statements have been prepared in a condensed format.

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, 2018, approved by Saipem's Board of Directors on July 24, 2018, 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; and (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 economic 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, 2017	Exchange at June 30, 2018	2018 average exchange rate
US Dollar	1.1993	1.1658	1.2104
British Pound Sterling	0.88723	0.88605	0.87977
Algerian Dinar	137.8343	137.1333	139.0348
Angolan Kwanza	198.906	290.597	263.079
Argentine Peso	22.931	32.7048	26.0382
Australian Dollar	1.5346	1.5787	1.5688
Brazilian Real	3.9729	4.4876	4.1415
Canadian Dollar	1.5039	1.5442	1.5457
Croatian Kuna	7.44	7.386	7.4178
Egyptian Pound	21.3309	20.866	21.4584
Ghanaian New Cedi	5.4313	5.5653	5.4791
Indian Rupee	76.6055	79.813	79.4903
Indonesian Rupee	16,239.12	16,654.04	16,665.06
Kazakhstan Tenghè	397.96	397.85	395.43
Malaysian Ringgit	4.8536	4.708	4.767
Nigerian Naira	367.046	355.9187	369.5925
Norwegian Kroner	9.8403	9.5115	9.5929
Peruvian New Sol	3.8854	3.8187	3.9309
Qatari Riyal	4.3655	4.2435	4.4057
Romanian New Leu	4.6585	4.6631	4.6543
Russian Rouble	69.392	73.1582	71.9601
Saudi Arabian Riyal	4.4974	4.3718	4.5388
Singapore Dollar	1.6024	1.5896	1.6054
Swiss Franc	1.1702	1.1569	1.1697

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 2017 Annual Report. In addition, in July 2018, the Board of Directors approved a new strategic direction for the company, defining specific strategic objectives and priorities for each division. In line with this new direction, the Board approved a change to the organisational model that is aimed at completing the divisionalisation process which began in 2017 by the end of the year, to ensure full autonomy to the divisions in pursuing their defined objectives and priorities, in particular in the commercial sector, execution of projects, technology and Research & Development, business strategies, partnerships, etc., as well as managing the specific risks of each business segment.
Following the adoption of the new strategic direction and the resulting change to the organisational model, the impairment test procedure of the Group's Cash Generating Units was coerently updated, modifying the process of estimating the discount rate used to estimate the value in use, providing for the determination of WACC differentiated by business segment, so as to reflect the specific risks of the individual business segments to which the CGUs belong.
Considering that the changes made to the methods for estimating the cost of capital are motivated and attributable to the new elements introduced following the resolution on the new strategic direction and the redefinition of the organisational structure, the refinement/updating of the impairment test procedure carried out in 2018 falls within the meaning of the 'change in accounting estimates' pursuant to IAS 8. As a result, the effects of this update are applied on a

forward-looking basis, beginning with preparation of the Interim Consolidated Report as of June 30, 2018, and not retroactively.

3 Changes to accounting standards

Compared to what is indicated in the 2017 Annual Report, to which reference is made, there have been no changes in accounting policies, except for the changes that occurred as a consequence of the first adoption of IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' entered into force on January 1, 2018 and illustrated above in the 'Basis of presentation' paragraph.
With regard to IFRS 15, in the first application of the new provisions, Saipem took advantage of the possibility of recognising the effect connected to the retroactive restatement of the values in shareholders' equity at January 1, 2018, with regard to the entries existing on that date, without restating the previous financial years under comparison. The adoption of IFRS 15 involved, net of the related tax effect, a decrease in shareholders' equity of €20 million, deriving from the various performance obligations of certain engineering and construction projects and from a different assessment of the performance obligations of drilling services.
In the first half of 2018, the adoption of the new standard did not have a significant effect on the Group's economic, equity and financial values.
The equity, economic and financial values relating to the first half of 2018 would not have been significantly different if the previous provisions in terms of revenue recognition had been applied.
The adoption of the IFRS 15 involved updating of the financial statements, requiring the opening in the balance sheet of two specific items 'Contract assets' and 'Contract liabilities' which respectively cover previous contracts work in progress included in inventories, deferred income and advances previously included in financial debt and other payables.
Also as far as IFRS 9 is concerned, in the first application, Saipem took advantage of the possibility of recognising the effect of adopting IFRS 9 in terms of classification and evaluation, including the impairment of financial assets, in shareholders' equity at January 1, 2018, without restating the previous financial years under comparison. The adoption of IFRS 9 entailed, net of the related tax effect, a decrease in shareholders' equity of €28 million related to the additional write-downs in financial assets due to the adoption of the expected credit loss model.
In the first half of 2018, the adoption of the new standard did not have a significant effect on the Group's economic, equity and financial values.
The adoption of IFRS 9 led to the updating of the financial statements, requiring the opening in the balance sheet of a specific item 'Financial assets measured at fair value through OCI', in the income statement the item 'Net reversals (impairments) of trade and other receivables' to accommodate write-downs/write-backs of trade receivables and other receivables.
As regards the amendments to IAS 28 'Investments in associates and joint ventures', IFRS 1 'First-time adoption of International Financial Reporting Standards' and IFRS 2 'Classification and Measurement of Share-based Payment Transactions' already highlighted in the 2017 Annual Report, to which reference is made, their adoption from January 1, 2018 did not have any impact on the Group.
European Commission Regulation No. 2018/519, dated March 28, 2018, approved the IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration', on the basis of which the exchange rate to be used in the initial recognition of an asset, expense or income related to an advance, previously paid/received, in foreign currency, is that in force at the date of recognition of the non-monetary asset/liability associated with said advance.
IFRIC 22 is effective for financial years beginning on or after January 1, 2018 and its application has not had any impact on the Group as the provisions specified have reaffirmed behaviour already adopted by Saipem.

Recent accounting principles endorsed by the European Commission

With regard to the new standard IFRS 16 'Leases' approved with European Regulation No. 2017/1986 issued by the European Commission on October 31, 2017, which will come into force as of January 1, 2019, as part of the dedicated project during the first half of 2018, the analysis of the contracts continued for the purposes of determining the impact deriving from the forthcoming adoption of the new standard and the adjustment of the processes and information systems dedicated to supporting accounting records and the financial information to be produced. In fact, the adoption of the new standard will entail significant impacts on the Group's net financial position as a result of recognition in the balance sheet of payables for leases (so-called Lease Liabilities) and on the recognition in assets held for acquired rights (so-called. ROU Right of Use asset).

Recent accounting principles not yet endorsed by the European Commission

On March 29, 2018, the IASB issued the document 'Amendments to References to the Conceptual Framework in IFRS Standards', which contains amendments, which are essentially technical and editorial in nature, to the international accounting standards aimed at incorporating the new IFRS reference framework (the Conceptual Framework for Financial Reporting), issued by the IASB on the same date. The amendments are effective for annual periods beginning on or after January 1, 2020.

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

4 Scope of consolidation at June 30, 2018

Parent company

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle (*)
Saipem SpA	San Donato Milanese	EUR	2,191,384,693	Eni SpA CDP Equity SpA (formerly Fondo Strategico Italiano) Saipem SpA Third parties	30.54 12.55 1.47 55.44		

Subsidiaries

Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle (*)
Denuke Scarl	San Donato Milanese	EUR	10,000	Saipem SpA 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.
SnamprogettiChiyoda 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 evaluation principle (*)
Andromeda Consultoria Tecnica e Representações Ltda	Rio de Janeiro (Brazil)	BRL	12,494,210	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.
European Maritime Construction sas	Montigny le Bretonneux (France)	EUR	1,000	Saipem SA	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	1,200,529,045	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	372,778,100	Saipem International BV Third parties	99.99 0.01	99.99	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
(**) In liquidation.

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle (*)
Saigut SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	998.259.500	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 Algérie SpA	Algiers (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 Nigeria Ltd	Lagos (Nigeria)	NGN	827,000,000	Saipem International BV Third parties	97.94 2.06	97.94	F.C.
Saipem do Brasil Serviçõs de Petroleo Ltda	Rio de Janeiro (Brazil)	BRL	1,950,796,299	Saipem International BV	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 Snamprogetti Netherlands BV	51.00 49.00	100.00	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	526,902,060	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 evaluation 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	29,004,600	Snamprogetti Netherlands BV Saipem International BV	99.00 1.00	100.00	F.C.
Saipem SA	Montigny le Bretonneux (France)	EUR	528,837,858	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	36,090,000	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	F.C.
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	West Perth (Australia)	AUD	13,157,570	Saipem Australia Pty Ltd	100.00	100.00	F.C.

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

Associates and jointly controlled companies

Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation 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 evaluation 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 Wll (**)	Doha (Qatar)	QAR	500,000	Snamprogetti Netherlands BV Third parties	20.00 80.00	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.
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.

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

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle (*)
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	286,099,950	Saipem Ingenieria Y Construcciones SLU Third parties	33.33 66.67	33.33	E.M.
TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	Funchal (Portugal)	EUR	5,000	TSKJ - Serviçes 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 - Serviçes 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 98 companies: 59 are consolidated using the full consolidation method, 2 using the working interest method, 34 using the equity method and 3 using the cost method.
At June 30, 2018 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/Joint operations 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)	**-**	**4**	**4**	**7**	**26**	**33**
Accounted for using the equity method	-	3	3	5	26	31
Accounted for using the cost method	-	1	1	2	-	2
Total companies	**5**	**58**	**63**	**8**	**27**	**35**

(1) The participating interests held by subsidiaries and joint operations accounted for using the equity method and the cost method concern non-material entities and entities whose consolidation would not have a material impact.

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

Changes in the scope of consolidation

There were no significant changes in the scope of consolidation during the first six months of 2018 with respect to the 2017 Annual Report. Changes are shown by order of occurrence.

New incorporations, disposals, liquidations, mergers and changes to the consolidation method:

- **European Maritime Construction sas**, with registered offices in France, was incorporated and consolidated using the full consolidation method.

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

The adoption of the new IFRS 9 'Financial instruments' and IFRS 15 'Revenues from contracts with customers', as reported in the basis of presentation, entailed the following effects on the opening balances at January 1, 2018.

(€ million)

Items	Dec. 31, 2017	Application of IFRS 9	Application of IFRS 15	Total effects before application	Situation as at January 1, 2018
Current assets	**6,743**	**(28)**	**(21)**	**(49)**	**6,694**
- of which: Financial assets held for trading	-	-	-	-	-
- of which: Financial assets measured at fair value through OCI	69	-	-	-	69
- of which: Trade and other receivables	2,411	(28)	(21)	(49)	2,362
- of which: Other current assets	185	-	-	-	185
Non-current assets	**5,847**	**-**	**-**	**-**	**5,847**
- of which: Intangible assets	753	-	-	-	753
- of which: Investments accounted for using the equity method	142	-	-	-	142
- of which: Other investments	1	-	-	-	1
- of which: Deferred tax assets	268	-	-	-	268
Current liabilities	**4,487**	**-**	**-**	**-**	**4,487**
- of which: Trade and other payables	4,036	-	-	-	4,036
- of which: Other current liabilities	24	-	-	-	24
Non-current liabilities	**3,504**	**-**	**(1)**	**(1)**	**3,503**
- of which: Deferred tax liabilities	35	-	(1)	(1)	34
Total shareholders' equity	**4,599**	**(28)**	**(20)**	**(48)**	**4,551**

CURRENT ASSETS

6 Cash and cash equivalents

Cash and cash equivalents amounted to €1,655 million representing a decrease of €96 million compared with December 31, 2017 (€1,751 million).

Cash and cash equivalents at the end of the semester, denominated in euros for 64%, in US dollars for 15% and other currencies for 21%, were found to be remunerated at an average rate of 0.26%. Cash and cash equivalents included cash and cash on hand of €3 million (€2 million at December 31, 2017).

Funds in two current accounts held by the subsidiary Saipem Contracting Algérie SpA equivalent to €70 million at June 30, 2018 (in line with the situation at December 31, 2017) have been frozen since February 2010. The effectiveness of the ruling issued in 2016 that ordered to make the accounts available to Saipem has been suspended following the appeal of said sentence to the Supreme Court (for further details see the section 'Legal proceedings - Algeria - The proceedings in Algeria' and in Note 53 'Additional information: Algeria').

Furthermore, the equivalent of €5 million spread over the account of a foreign branch of Saipem SpA, as well as funds in time deposits belonging to foreign subsidiaries, has been temporarily frozen due to legal actions with some suppliers.

The breakdown of cash and cash equivalents of Saipem and other Group companies at June 30, 2018 by geographical area (based on the country of domicile of the relevant company) was as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Italy	1,215	984
Rest of Europe	133	100
CIS	22	21
Middle East	89	173
Far East	57	82
North Africa	91	72
West Africa and Rest of Africa	46	33
Americas	98	190
Total	**1,751**	**1,655**

7 Financial assets measured at fair value through OCI

Financial assets measured at fair value through OCI amounted to €68 million (€69 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Financing receivables for non-operating purposes		
Listed bonds issued by sovereign states/supranational institutions	26	25
Listed bonds issued by industrial enterprises	43	43
Total	**69**	**68**

Listed securities issued by sovereign states at June 30, 2018 of €25 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	6	7	3.75-4.50	2022-2023	BBB+
Other	7	8	1.375-2.50	2019-2020	AAA/A
Total	**22**	**25**			

Listed bonds issued by industrial enterprises at June 30, 2018 of €43 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 companies	42	43	0.00-6.25	2019-2026	AA-/BBB
Total	**42**	**43**			

The fair value of securities is determined on the basis of market prices. The fair value hierarchy is level 1.
The securities measured at fair value through OCI are held both to collect contractual cash flows and for future sale.

8 Trade and other receivables

Trade and other receivables of €2,502 million (€2,411 million at December 31, 2017) were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Trade receivables	2,008	2,110
Financing receivables for operating purposes	2	2
Financing receivables for non-operating purposes	2	2
Prepayments for services	233	223
Other receivables	166	165
Total	**2,411**	**2,502**

Receivables are stated net of a provision for impairment losses of €640 million.

(€ million)	Dec. 31, 2017	Effect of adopting IFRS 9 January 1, 2018	Additions	Deductions	Currency translation differences	Other changes	June 30, 2018
Trade receivables	572	28	10	(13)	13	-	610
Other receivables	30	-	-	-	-	-	30
Total	**602**	**28**	**10**	**(13)**	**13**	**-**	**640**

Trade receivables amounted to €2,110 million, representing an increase of €102 million compared to 2017.

At June 30, 2018, Saipem had non-recourse non-notification factoring agreements relating to trade receivables, including not past due receivables, amounting to €31 million (€10 million at December 31, 2017). 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 assets of €257 million (€260 million at December 31, 2017), of which €57 million was due within twelve months and €200 million due after twelve months.
Receivables referring to disputed projects amounted to €199 million (€202 million at December 31, 2017).
Financing receivables for operating purposes of €2 million (€2 million at December 31, 2017) were mainly related to receivables held by Saipem SpA from Serfactoring SpA.
Other receivables of €165 million were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Receivables from:		
- insurance companies	-	5
- employees	25	21
Guarantee deposits	11	10
Other receivables	130	129
Total	**166**	**165**

Trade receivables and other receivables from related parties are detailed in Note 49 'Transactions with related parties'.
The fair value of trade and other receivables did not differ significantly from their carrying amount due to the short period of time elapsed between their date of origination and their due date.

9 Inventories and contract assets

Inventories

Inventories amounted to €308 million (€319 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Raw and auxiliary materials and consumables	319	308
Total	**319**	**308**

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 €117 million.

(€ million)	Dec. 31, 2017	Additions	Deductions	Other changes	June 30, 2018
Raw and auxiliary materials and consumables valuation allowance	146	7	(37)	1	117
Total	**146**	**7**	**(37)**	**1**	**117**

Contract assets

Contract assets for €1,419 million (€1,574 million at December 31, 2017) consisted of the following:

(€ million)	Dec. 31, 2017	June 30, 2018
Contract assets	1,574	1,419
Total	**1,574**	**1,419**

The item 'Contract assets' 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 assets has decreased due to recognition of the milestone by the buyers, to invoicing and related income.

10 Current tax assets

Current tax assets amounted to €205 million (€213 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Italian tax authorities	56	56
Foreign tax authorities	157	149
Total	**213**	**205**

11 Other current tax assets

Other current tax assets amounted to €246 million (€221 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Italian tax authorities	17	3
Foreign tax authorities	204	243
Total	**221**	**246**

12 Other current assets

Other current assets amounted to €106 million (€185 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Fair value on derivatives financial instruments	91	21
Other assets	94	85
Total	**185**	**106**

The fair value of derivative financial instruments is commented on Note 28 'Derivative financial instruments'.
Other assets at June 30, 2018 amounted to €85 million, representing a decrease of €9 million compared with December 31, 2017, and consisted mainly of prepayments.
Other assets from related parties are shown in Note 49 'Transactions with related parties'.

NON-CURRENT ASSETS

13 Property, plant and equipment

Property, plant and equipment amounted to €4,481 million (€4,581 million at December 31, 2017) and consisted of the following:

(€ million)	Gross value at Dec. 31, 2017	Provision for depreciation and impairments at Dec. 31, 2017	Net value at Dec. 31, 2017	Capital expenditure	Depreciation, amortisation and impairment	Disposals	Exchange differences	Other changes	Final net value at June 30, 2018	Final gross value at June 30, 2018	Provision for depreciation and impairments at June 30, 2018
Property, plant and equipment	13,194	8,613	4,581	308	(420)	(1)	13	-	4,481	13,452	8,971
Total	**13,194**	**8,613**	**4,581**	**308**	**(420)**	**(1)**	**13**	**-**	**4,481**	**13,452**	**8,971**

Capital expenditure in the first half of 2018 amounted to €308 million (€145 million in the first half of 2017) and mainly related to:
- €260 million in the Offshore Engineering & Construction sector: purchase of the vessel Saipem Constellation, maintenance and upgrading of the existing asset base;
- €5 million in the Onshore Engineering & Construction sector: purchase and maintenance of equipment;
- € 25 million in the Offshore Drilling sector: class reinstatement works on the jack-up Perro Negro 7 and upgrading of the drillship Saipem 12000 for the purchase of the second BOP in addition to maintenance and upgrading on other vessels;
- €18 million for Onshore Drilling sector: upgrading of rigs for operations in Kazakhstan and Saudi Arabia, as well as the upgrading and maintaining of other assets.

No finance expenses were capitalised during the period.
Exchange rate differences due to the translation of financial statements prepared in operational currencies other than euro, amounting to positive €13 million.
During the period, no government grants were recorded as a decrease of the carrying value of property, plant and equipment.
At June 30, 2018, all property, plant and equipment were free from pledges, mortgages and any other obligations.
The total commitment on current items of capital expenditure at June 30, 2018 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 €25 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.

Following the impairment test, due to the reduction in future installments (over the period of the plan) and in the discount rate, some Offshore drilling vessels were partially written down as specified in the following paragraph.

Impairment

In monitoring impairment indicators, Saipem considers, among other factors, the relationship between its market capitalisation and net assets. At June 30, 2018, the Group's market capitalisation was lower than its net assets, indicating a potential impairment of goodwill and/or of other assets. Accordingly, an impairment test was performed for each of the cash generating units ('CGU'). Specifically, the 15 cash generating units on which impairment tests were carried out were: one leased FPSO unit, the Offshore Engineering & Construction division, the Onshore Engineering & Construction division excluding the leased FPSO, the XSIGHT division, the Onshore Drilling division, and the individual rigs from the Offshore Drilling division (10 separate rigs).

The CGUs were tested for impairment by comparing the carrying amount with the relative recoverable value which, considering the nature of Saipem's assets (which leads to believe that the relative fair value can not be determined except by using models that would tend to replicate, in essence, the analyses aimed at estimating the value in use, unless under specific circumstances which are not relevant in this case) is determined on the basis of the value in use obtained by discounting future cash flows generated by each of the cash generating units at the weighted average cost of capital ('WACC') specific to each business segment in which the specific CGU operates.

The expected future cash flows used to estimate the recoverable amount of the individual cash generating units were based on the best information available at the date of the review, taking into account forecasts regarding the relevant markets. Specifically, for estimating the cash flows of the first four years of the explicit forecast for the purpose of the impairment test, the projections used were those from the 2018-2021 Strategic Plan approved by the Board of Directors in March 2018, updated with the most recent forecasts of results for the second half of 2018 and through a sanity check carried out by each division to analyse the validity of the assumptions of the Plan and to verify the presence of any significant element that may have occurred in recent months that would entail the need to revise the projections used for the Impairment test at December 31, 2017. In this context, the Offshore Drilling division verified its estimates of the rental rates of the drilling rigs over the long term, weighting, as usual, the elements available on market scenarios developed by external sources with other available internal commercial or strategic elements. As a result of this verification, for some Offshore Drilling CGUs, cash flows were updated to reflect the reduction in long-term drilling rates (after the Plan periods) in light of the recent downward revision of drilling rate forecasts prepared by a market analyst.

For the years following the fourth year, the cash flows have been calculated on the basis of a terminal value, determined: (a) for the Offshore Engineering & Construction, Onshore Engineering & Construction, XSIGHT and Onshore Drilling cash generating units using the perpetuity model, applying to the normalised free cash flow (to take into account the dynamics of the business and/or the cyclical nature of the sector) a long term growth rate of 2%; (b) for the Leased FPSO Cidade de Vitoria cash generating unit and for the offshore drilling rigs, on the basis of the residual economic and technical life of the individual assets, or till the expiry date of the last maintenance if that comes first, considering beyond the plan horizon: (i) long-term charter rates defined by the relevant division and also taking into consideration the most recent information available from both internal and external sources inflated by 2% over the forecast period; (ii) normalised figures for idle days; (iii) operating costs based on data for the last year of the plan, adjusted for inflation; (iv) investments and related plant downtimes for cyclical maintenance and replacements established by the divisions on the basis of the planned schedule for cyclical and intermediate maintenance.

As described in Note 2 'Accounting estimates and significant judgements', following the adoption of the new strategic direction and the resulting change to the organisational model, (approved by the Board of Directors in July 2018) the updating of the impairment test procedure of the Group's Cash Generating Units led to a change in the process of estimating the discount rate used to estimate the value in use, providing for the determination of WACC differentiated by business segment, so as to reflect the specific risks of the individual business segments to which the CGUs belong.

Value in use was calculated by discounting post-tax cash flows with a discount rate, specific to each business segment as shown in the table below:

(%)	WACC
Offshore E&C	9.0
Onshore E&C	8.9
XSIGHT	8.9
Leased FPSO	6.2
Offshore Drilling	7.5
Onshore Drilling	8.4

The discount rates used (WACC) reflect market assessments of the financial value of time and the systematic risks specific to the activities of the individual CGUs that are not reflected in the estimate of future cash flows and have been estimated for each business segment taking into account: (i) a cost of debt consistent with the average estimated in the four-year period of the Plan adjusted to take into account the credit spread, observed on the market, relating to a panel of operators active in the specific business segment; (ii) average leverage, observed on the market, related to the same panel of operators ((taking into account the market capitalisation of the last 6 months); (iii) the average beta of the securities of companies belonging to the same panel of reference on a multi-year historical horizon. Post-tax cash flows and discount rates were used as they produce outcomes which are equivalent to those resulting from a valuation using pre-tax cash flows and discount rates.

Assumptions were based on management's past experience and take into account current interest rates, specific risks to the activities of the individual CGUs already included in the cash flows, as well as expected long-term growth for the sectors.
The impairment test determined: (i) a reduction in the carrying amount of 4 offshore rigs (Offshore Drilling division) for a total value equal to €196 million, as well as (ii) a reduction in the carrying amount of the goodwill allocated to the CGU Onshore E&C for a value equal to €60 million (see Note 14 'Intangible assets').
Sensitivity analysis can be found below for the 11 CGUs, with reference to 10 offshore drilling rigs and one FPSO vessel and the Onshore Drilling CGU while the sensitivity analysis for the CGU Offshore Engineering & Construction, CGU Onshore Engineering & Construction and CGU XSIGHT can be found in Note 14 'Intangible assets'.

Sensitivity analysis of the CGU referring to 10 offshore drilling rigs and the Leased FPSO

The key assumptions adopted in assessing the recoverable amounts of the 11 cash generating units representing the Group's offshore vessels (10 from Offshore Drilling and one leased FPSO) relate mainly to the operating result of the CGUs (based on a combination of various factors, including charter rates and exchange rates) and the discount rate applied to the cash flows. The effects that any change in the parameters used in the estimate would produce on the recoverable amount of the CGUs are as follows:
- an increase in the discount rate of 1% would produce an increase in the impairment equal to €124 million;
- a decrease in the discount rate of 1% would produce a reduction in the impairment equal to €141 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 €169 million;
- decreases in long-term day rates of 10% compared with the rates assumed in the plan projections would produce an increase in the impairment of €294 million;
- an increase in long-term €/$ exchange rate of 0.1 compared to the scenario assumed in plan projections would produce an increase in the impairment of €201 million;
- a decrease in long-term €/$ exchange rate of 0.1 compared to the scenario assumed in plan projections would produce a reduction in the impairment of €166 million;
- the use, for the FPSO Cidade de Vitoria CGU, of a discounting rate of 6.7%, based on the specific WACC of the Leased FPSO business segment, but including a possible premium for the additional risk linked to the country risk, would result in a reduction in the headroom (which would in any case remain positive) of €2 million.

Sensitivity on the Onshore Drilling CGU

The excess of the recoverable amount of the Onshore Drilling cash generating unit over the corresponding value of the net capital employed in the cash generating unit is reduced to zero under the following circumstances:
- decrease by 19% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 9.7%;
- use of a terminal growth rate equal to 0.4%.

Further, the excess of the recoverable amount over the value of the net capital employed in the Onshore Drilling CGU would decrease by 49% in the event of null cash flows from working capital.

14 Intangible assets

Intangible assets amounted to €693 million (€753 million at December 31, 2017) and consisted of the following:

(€ million)	Gross value at Dec. 31, 2017	Provision for depreciation and impairments at Dec. 31, 2017	Net value at Dec. 31, 2017	Capital expenditure	Depreciation, amortisation and impairment	Disposals	Exchange differences	Other changes	Final net value at June 30, 2018	Final gross value at June 30, 2018	Provision for depreciation and impairments at June 30, 2018
Intangible assets with finite useful lives	230	204	26	5	(4)	-	(2)	-	25	233	208
Total intangible assets with finite useful lives	**230**	**204**	**26**	**5**	**(4)**	**-**	**(2)**	**-**	**25**	**233**	**208**
Other intangible assets with indefinite useful lives	-	-	727	-	(60)	-	1	-	668	-	-
Total intangible assets	**-**	**-**	**753**	**5**	**(64)**	**-**	**(1)**	**-**	**693**	**-**	**-**

Goodwill of €668 million refers mainly to the difference between the purchase price, including transaction costs, and the net assets of Saipem SA (€629 million), Sofresid SA (€21 million) and the Moss Maritime Group (€13 million) on the date that control was acquired.

For impairment purposes, goodwill has been allocated to the following cash-generating units:

(€ million)	Dec. 31, 2017	June 30, 2018
Offshore E&C	403	403
Onshore E&C	291	231
XSIGHT	33	34
Total	**727**	**668**

The change in the total goodwill compared to December 31, 2017 is due to: (i) a reduction of €60 million in the value of Saipem SA goodwill allocated to the Onshore E&C CGU as a result of the impairment test; and (ii) the increase of €1 million in the goodwill of the Moss Maritime Group due to the effect of changes in foreign exchange rates.
The recoverable amount of the three cash generating units was determined based on the value in use, calculated by discounting the future cash flows expected to be generated by each CGU.
The basis of the cash flow estimate, the discount rate used and the terminal growth rate for the estimate of the recoverable amount of the CGUs to which goodwill is allocated are described in the 'Impairment' section of Note 13 'Property, plant and equipment'.
The table below shows the amounts by which the recoverable amounts of the Offshore Engineering & Construction, Onshore Engineering & Construction and XSIGHT cash generating units exceed their carrying amounts, including allocated goodwill.

(€ million)	Offshore	Onshore	XSIGHT	Total
Goodwill before impairment test	403	291	34	728
Recoverable amount surplus on carrying amount	569	(60)	46	555
Goodwill after impairment test	403	231	34	668
Residual recoverable amount surplus on book value	569	-	46	615

The key assumptions adopted for assessing recoverable amounts were principally the operating results of each CGU (based on a combination of various factors, e.g. sales volumes, service prices, project profit margins, cost structure), the discount rate, the growth rate adopted to determine the terminal value and working capital projections. The effects of changes in these parameters in relation to the amount by which recoverable amount exceeds the carrying amounts (including goodwill) for each of the three CGUs to which goodwill was allocated are described below.

Sensitivity on the Offshore Engineering & Construction CGU

The following changes in each of the assumptions, ceteris paribus, would cause the excess of the recoverable amount of the Offshore Engineering & Construction cash generating unit over its carrying amount, including the allocated portion of goodwill, to be reduced to zero:

- decrease by 20% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 10.6%;
- use of a terminal growth rate equal to 0.1%.

Further, the excess of the recoverable amount over the value of the net capital employed in the Offshore Engineering & Construction CGU would decrease by 94% in the event of null working capital flows.

Sensitivity analysis on the Onshore Engineering & Construction CGU

The write-down of the goodwill allocated to the Onshore Engineering & Construction cash generating unit is reduced to zero when there are variations in the basic assumptions equal, alternatively, to:

- increase of 11% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 8.3%;
- use of a terminal growth rate of 2.6%.

Furthermore, the write-down of the goodwill allocated to the Onshore Engineering & Construction CGU would be zeroed in the event of null cash flows from working capital and there would be a positive headroom of over €500 million.

Sensitivity analysis on the XSIGHT CGU

The excess of the recoverable amount of the XSIGHT cash generating unit over its carrying amount, including the allocated portion of goodwill, would be reduced to zero under the following circumstances:

- decrease by 45% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 14.6%;
- negative terminal growth rate.

Furthermore, the excess of the recoverable amount over the value of the net capital employed in the XSIGHT CGU would increase in the event of null working capital flows.

15 Investments

Investments accounted for using the equity method

Investments accounted for using the equity method of €121 million (€142 million at December 31, 2017) 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, 2017												
Investments in subsidiaries, joint ventures and associates	148	25	(4)	8	(16)	(2)	-	(16)	-	(1)	142	-
Total	**148**	**25**	**(4)**	**8**	**(16)**	**(2)**	**-**	**(16)**	**-**	**(1)**	**142**	**-**
June 30, 2018												
Investments in subsidiaries, joint ventures and associates	142	-	-	8	(27)	(1)	-	3	-	(4)	121	-
Total	**142**	**-**	**-**	**8**	**(27)**	**(1)**	**-**	**3**	**-**	**(4)**	**121**	**-**

Investments accounted for using the equity method are detailed in Note 4 'Scope of consolidation at June 30, 2018'.
The share of profit of investments accounted for using the equity method of €8 million mainly concern the results recorded by the associates.
The share of losses of investments accounted for using the equity method of €27 million included losses for the period of €18 million recorded by the joint venture companies and €9 million for the period recorded by associates.
Deductions for dividends of €1 million related mainly to the company SaiPar Drilling Co BV.
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, 2017	Net value at June 30, 2018
Rosetti Marino SpA	20.00	30	30
Petromar Lda	70.00	42	40
Other		70	51
Total investments accounted for using the equity method		**142**	**121**

The total carrying value of investments accounted for using the equity method does not include the provision for losses of €31 million (€2 million at December 31, 2017) recorded under the provisions for contingencies.

Other investments

Other investments amount to €1 million (€1 million as at December 31, 2017) and relate to the fair value measurement of Nagarjuna Oil Refinery Ltd and Nagarjuna Fertilizers and Chemicals Ltd. The fair value hierarchy is level 1.

16 Deferred tax assets

Deferred tax assets of €271 million (€268 million at December 31, 2017) are shown net of offsettable deferred tax liabilities.

(€ million)	Dec. 31, 2017	Additions (Deductions)	Currency translation differences	Other changes	June 30, 2018
Deferred tax assets	268	(22)	2	23	271
Total	**268**	**(22)**	**2**	**23**	**271**

The item 'Other changes', which amounted to positive €23 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €16 million); (ii) the positive tax effects (€6 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; and (iii) other changes (positive €1 million).

Net deferred tax assets consisted of the following:

(€ million)	Dec. 31, 2017	June 30, 2018
Deferred tax liabilities	(169)	(146)
Offsettable deferred tax assets	134	119
Net deferred tax liabilities	**(35)**	**(27)**
Non-offsettable deferred tax assets	268	271
Net deferred tax assets (liabilities)	**233**	**244**

Tax losses

Tax losses amounted to €3,213 million (€2,989 million at December 31, 2017) of which €2,226 million 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 26.7% for foreign companies.

Tax losses related mainly to foreign companies and can be used in the following periods:

(€ million)	Italy	Outside Italy
2018	-	39
2019	-	26
2020	-	39
2021	-	49
2022	-	28
After 2022	-	806
Without limit	483	1,743
Total	**483**	**2,730**

Taxes are shown in Note 45 'Income taxes'.

17 Other non-current assets

Other non-current assets of €86 million (€102 million at December 31, 2017) were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Fair value on derivatives financial instruments	6	-
Other receivables	15	16
Other non-current assets	81	70
Total	**102**	**86**

The fair value of derivative financial instruments is commented on Note 28 'Derivative financial instruments'.
Other non-current assets mainly related to prepayments.
Other non-current assets from related parties are shown in Note 49 'Transactions with related parties'.

CURRENT LIABILITIES

18 Short-term debt

Short-term debt of €73 million (€120 million at December 31, 2017) consisted of the following:

(€ million)	Dec. 31, 2017	June 30, 2018
Banks	114	67
Other financial institutions	6	6
Total	**120**	**73**

Short-term debt decreased by €47 million. The current portion of long-term debt, amounting to €77 million (€69 million at December 31, 2017), is detailed in Note 23 '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, 2017			June 30, 2018		
			Interest rate %			Interest rate %	
Issuing institution	Currency	Amount	from	to	Amount	from	to
Third parties	Euro	50	0.05	0.05	1	0.00	0.00
Third parties	US Dollar	2	0.00	0.00	1	0.00	0.00
Third parties	Other	68	variable		71	variable	
Total		**120**			**73**		

At June 30, 2018, Saipem had uncommitted lines of credit amounting to €383 million (€267 million at December 31, 2017). Commission fees on unused lines of credit were not significant.
Short-term debt to related parties are shown in Note 49 'Transactions with related parties'.

19 Trade and other payables and contract liabilities

Trade and other payables

Trade and other payables of €2,441 million (€2,571 million at December 31, 2017) consisted of the following:

(€ million)	Dec. 31, 2017	June 30, 2018
Trade payables	2,179	2,159
Other payables	392	282
Total	**2,571**	**2,441**

Trade payables amounted to €2,159 million, representing a decrease of €20 million compared with December 31, 2017.
Trade and other payables to related parties are shown in Note 49 'Transactions with related parties'.
Other payables of €282 million were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Payables to:		
- employees	131	152
- national insurance/social security contributions	59	40
- insurance companies	3	3
- consultants and professionals	4	3
- Board Directors and Statutory Auditors	1	-
Other payables	194	84
Total	**392**	**282**

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.

Contract liabilities

Contract liabilities of €1,463 million (€1,465 million at December 31, 2017) consisted of the following:

(€ million)	Dec. 31, 2017	June 30, 2018
Deferred income and advances	1,465	1,463
Total	**1,465**	**1,463**

Deferred income and advances of €1,463 million (€1,465 million at December 31, 2017), consisted mainly of adjustments to revenues from long-term contracts of €1,065 million (€984 million at December 31, 2017) 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 €398 million (€481 million at December 31, 2017).
Contract liabilities to related parties are shown in Note 49 'Transactions with related parties'.

20 Income tax payables

Income tax payables amounted to €74 million (€47 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Italian tax authorities	-	-
Foreign tax authorities	47	74
Total	**47**	**74**

21 Other current tax payables

Other current tax payables amounted to €212 million (€191 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Italian tax authorities	12	2
Foreign tax authorities	179	210
Total	**191**	**212**

22 Other current liabilities

Other current liabilities amounted to €132 million (€24 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Fair value on derivatives financial instruments	17	97
Other current liabilities	7	35
Total	**24**	**132**

The fair value of derivative financial instruments is commented on Note 28 'Derivative financial instruments'.
Other liabilities amounted to €35 million (€7 million at December 31, 2017).
Other liabilities to related parties are shown in Note 49 'Transactions with related parties'.

NON-CURRENT LIABILITIES

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

Long-term debt, including the current portion of long-term debt, amounted to €2,977 million (€2,998 million at December 31, 2017) and was as follows:

	Dec. 31, 2017			June 30, 2018		
(€ million)	Short-term maturity	Long-term maturity	Total	Short-term maturity	Long-term maturity	Total
Banks	33	941	974	47	910	957
Ordinary bonds	28	1,988	2,016	27	1,990	2,017
Other financial institutions	8	-	8	3	-	3
Total	**69**	**2,929**	**2,998**	**77**	**2,900**	**2,977**

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

(€ million)

Type	Maturity range	2019	2020	2021	2022	After	Total
Banks	2019-2027	404	132	97	83	194	910
Ordinary bonds	2021-2025	-	-	498	498	994	1,990
Other financial institutions	2019	-	-	-	-	-	-
Total		**404**	**132**	**595**	**581**	**1,188**	**2,900**

With reference to future contractual payments due, the maturities of long-term financial liabilities are analysed as follows:

(€ million)	Accounting value at June 30, 2018	Short-term maturity June 30, 2019	Long-term maturity: Second half 2019	2020	2021	2022	2023	After	Total future payments as at June 30, 2018
Banks	957	80	408	139	100	85	60	135	1,007
Ordinary bonds	2,017	-	-	-	500	500	500	500	2,000
Other financial institutions	3	3	-	-	-	-	-	-	3
Total	**2,977**	**83**	**408**	**139**	**600**	**585**	**560**	**635**	**3,010**

The difference of €33 million between the value of the long-term debt recorded in the financial statements at June 30, 2018 and the total of future payments, is derived from the measurement using the amortised cost method.
The long-term portion of long-term debt amounted to €2,900 million, down €29 million against December 31, 2017 (€2,929 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, 2017			June 30, 2018		
				Interest rate %			Interest rate %	
Issuing institution	Currency	Maturity	Amount	from	to	Amount	from	to
Third parties	Euro	2019-2027	2,998	0.90	4.10	2,977	0.90	4.10
Third parties	Brazilian Real	2018	-	-	-	-	-	-
Total			**2,998**			**2,977**		

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 €3,001 million (€3,066 million at December 31, 2017) and was calculated by discounting the expected future cash flows in the main currencies of the loan at the following, approximate rates:

(%)	2017	2018
Euro	0.04-3.47	0.08-3.51

The market value of listed financial instruments was calculated using the stock price at June 30, 2018.
The difference in the market value of long-term debt with respect to nominal value is mainly related to bond issues outstanding at the date.
At June 30, 2018, Saipem had unused committed credit lines amounting to €1,786 million (€1,786 million at December 31, 2017).
Commission fees on unused lines of credit were not significant.
Long-term debt to related parties is shown in Note 49 'Transactions with related parties'.

Analyses of net borrowings

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

	Dec. 31, 2017			June 30, 2018		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	1,751	-	1,751	1,655	-	1,655
B. Available-for-sale securities	69	-	69	68	-	68
C. Liquidity (A+B)	**1,820**	**-**	**1,820**	**1,723**	**-**	**1,723**
D. Financing receivables	**2**	**-**	**2**	**2**	**-**	**2**
E. Short-term bank debt	114	-	114	67	-	67
F. Long-term bank debt	33	941	974	47	910	957
G. Short-term related party debt	-	-	-	-	-	-
H. Ordinary bond	28	1,988	2,016	27	1,990	2,017
I. Long-term related party debt	-	-	-	-	-	-
L. Other short-term debt	6	-	6	6	-	6
M. Other long-term debt	8	-	8	3	-	3
N. Total borrowings (E+F+G+H+I+L+M)	**189**	**2,929**	**3,118**	**150**	**2,900**	**3,050**
O. Net financial position pursuant to Consob Communication No. DEM/6064293/2006 (N-C-D)	**(1,633)**	**2,929**	**1,296**	**(1,575)**	**2,900**	**1,325**
P. Non-current financing receivables	**-**	**-**	**-**	**-**	**-**	**-**
Q. Net borrowings (O-P)	**(1,633)**	**2,929**	**1,296**	**(1,575)**	**2,900**	**1,325**

Net borrowings include a liability relating to the interest rate swap, equal to €1 million, but do not include the fair value of derivatives indicated in Note 12 'Other current assets', Note 17 'Other non-current assets', Note 22 'Other current liabilities' and Note 27 'Other non-current liabilities'.
Cash and cash equivalents included €75 million deposited in accounts that are frozen or are time deposits, as indicated in Note 6 'Cash and cash equivalents'.
The change compared to the balance at December 31, 2017, amounting to €29 million, is mainly due to the cash flow generated during the year.
Based on the amendments to IAS 7 'Disclosure Initiative' the following is a reconciliation between the initial and final values of finance debt and the net financial position:

			Non-cash changes				
(€ million)	Dec. 31, 2017	Cash flows	Acquisitions	Exchange differences	Change in the fair value	Other non-monetary changes	June 30, 2018
Short-term debt	120	(50)	-	4	-	(1)	73
Long-term debt and current portion of long-term debt	2,998	(21)	-	-	-	-	2,977
Total liabilities from financing activities	**3,118**	**(71)**	**-**	**4**	**-**	**(1)**	**3,050**

24 Provisions for contingencies

Provisions for contingencies of €345 million (€340 million at December 31, 2017) consisted of the following:

(€ million)	Opening balance	Additions	Deductions	Other changes	Closing balance
Dec. 31, 2017					
Provisions for taxes	40	34	(3)	(2)	69
Provisions for contractual penalties and disputes	92	19	(32)	(5)	74
Provisions for losses of investments	2	1	-	(1)	2
Provision for contractual expenses and losses on long-term contracts	58	22	(46)	16	50
Provisions for redundancy incentives	-	25	-	-	25
Other	76	104	(54)	(6)	120
Total	**268**	**205**	**(135)**	**2**	**340**
June 30, 2018					
Provisions for taxes	69	2	(5)	-	66
Provisions for contractual penalties and disputes	74	21	(9)	(1)	85
Provisions for losses of investments	2	30	-	(1)	31
Provision for contractual expenses and losses on long-term contracts	50	3	(18)	-	35
Provisions for redundancy incentives	25	-	(12)	-	13
Other	120	4	(9)	-	115
Total	**340**	**60**	**(53)**	**(2)**	**345**

The **provisions for taxes** amounted to €66 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 €85 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 €31 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 €35 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 €13 million and refers to provisions in foreign subsidiaries.
Other provisions amounted to €115 million.
For details on amounts relating to completed projects in Algeria, see Note 53 'Additional information: Algeria'.

25 Provisions for employee benefits

Provisions for employee benefits amounted to €209 million (€199 million at December 31, 2017).

26 Deferred tax liabilities

Deferred tax liabilities of €27 million (€35 million at December 31, 2017) are shown net of offsettable deferred tax assets of €119 million.

(€ million)	Dec. 31, 2017	Effect of adopting IFRS 9 Jan. 1, 2018	Additions (Deductions)	Currency translation differences	Other changes	June 30, 2018
Deferred tax liabilities	35	(1)	(18)	-	11	27
Total	**35**	**(1)**	**(18)**	**-**	**11**	**27**

The item 'Other changes', which amounted to positive €11 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €16 million); (ii) the negative tax effects (€7 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; (iii) other changes (positive €2 million).
A breakdown of deferred tax assets is provided in Note 16 'Deferred tax assets'.

27 Other non-current liabilities

Other non-current liabilities of €10 million (€1 million at December 31, 2017) were as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Fair value on derivatives financial instruments	1	10
Total	**1**	**10**

The fair value of derivative financial instruments is commented on Note 28 'Derivative financial instruments'.

28 Derivative financial instruments

	Dec. 31, 2017		June 30, 2018	
(€ 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	-	1	-	1
- sale	-	-	-	-
Forward currency contracts (Spot component)				
- purchase	3	7	4	4
- sale	72	-	1	51
Forward currency contracts (Forward component)				
- purchase	-	-	5	1
- sale	(14)	2	-	18
Forward commodity contracts (Forward component)				
- purchase	2	-	2	1
- sale	-	-	-	-
Total derivative contracts qualified for hedge accounting	**63**	**10**	**12**	**76**
Derivative contracts not qualified for hedge accounting				
Forward currency contracts (Spot component)				
- purchase	1	10	5	2
- sale	38	-	4	24
Forward currency contracts (Forward component)				
- purchase	1	(1)	1	-
- sale	(6)	-	(1)	6
Forward commodity contracts (Forward component)				
- purchase	-	-	-	-
- sale	-	-	-	-
Total derivative contracts not qualified for hedge accounting	**34**	**9**	**9**	**32**
Total derivative contracts	**97**	**19**	**21**	**108**
Of which:				
- current	91	17	21	97
- non-current (including IRS, Note 23 'Long-term debt and current portion of long-term debt')	6	2	-	11

The derivative contracts fair value hierarchy is level 2.

Purchase and sale commitments on derivative contracts are detailed as follows:

	Dec. 31, 2017		June 30, 2018	
(€ million)	Assets	Liabilities	Assets	Liabilities
Purchase commitments				
Derivative contracts qualified for hedge accounting:				
- interest rate contracts	-	250	-	250
- currency contracts	318	615	408	491
- commodity contracts	5	-	5	13
Derivative contracts not qualified for hedge accounting:				
- currency contracts	222	734	227	282
	545	**1,599**	**640**	**1,036**
Sale commitments				
Derivative contracts qualified for hedge accounting:				
- currency contracts	1,975	285	89	1,921
Derivative contracts not qualified for hedge accounting				
- currency contracts	1,304	71	509	1,356
	3,279	**356**	**598**	**3,277**

The fair value of derivative financial instruments was determined using valuation models commonly used in the financial sector and based on period-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, 2018 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 €1 million (€1 million at December 31, 2017) relating to the fair value of an interest rate swap has been recorded under Note 23 'Long-term debt and current portion of 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, 2018 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 are 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, 2018 are expected to occur up until 2019.
During the first half of 2018, 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, 2018 was equal to €12 million (€63 million at December 31, 2017). The spot component of these derivatives of €5 million (€75 million at December 31, 2017) was deferred in a hedging reserve in equity for a total of €3 million (€64 million at December 31, 2017) and recorded as finance income and expense for a total of €2 million (€11 million at December 31, 2017), while the forward component, which was not designated as a hedging instrument, was recognised as finance income and expense for a total of €5 million (-€14 million at December 31, 2017).
The forward component of commodity contracts of €2 million (€2 million at December 31, 2017) was deferred in a hedging reserve in equity of €1 million (€2 million at December 31, 2017) and recorded as operative income and expense (€1 million).
The negative fair value of derivative qualified for hedge accounting at June 30, 2018, analysed in Note 22 'Other current liabilities' was €76 million (€10 million at December 31, 2017). The spot component of these derivatives of €55 million was deferred in a hedging reserve in equity for a total of €61 million (€7 million at December 31, 2017) and recorded as finance income and expense for -€6 million. The forward component was recognised as finance income and expense for €19 million (€2 million at December 31, 2017).
With regard to commodities contracts, the forward component of €1 million was deferred in the hedging reserve.
During the first half of 2018, operating revenues and expenses were adjusted by a net positive amount of €18 million to reflect the effects of hedging.

SHAREHOLDERS' EQUITY

29 Non-controlling interests

Non-controlling interests at June 30, 2018 amounted to €59 million (€41 million at December 31, 2017).

30 Saipem's shareholders' equity

Saipem's shareholders' equity at June 30, 2018 amounted to €4,140 million (€4,558 million at December 31, 2017) and was as follows:

(€ million)	Dec. 31, 2017	June 30, 2018
Share capital	2,191	2,191
Share premium reserve	1,049	553
Legal reserve	88	88
Investments carried at fair value	1	1
Cash flow hedge reserve	41	(26)
Available for sale financial instruments carried at fair value	(1)	(2)
Cumulative currency translation differences	(154)	(128)
Employee defined benefits reserve	(21)	(21)
Other	2	2
Retained earnings	1,786	1,900
Net profit (loss) for the year	(328)	(323)
Negative reserve for treasury shares in portfolio	(96)	(95)
Total	**4,558**	**4,140**

Saipem's shareholders' equity at June 30, 2018 includes distributable reserves of €1,440 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 (€7 million).

31 Share capital

At June 30, 2018, the share capital of Saipem SpA, fully paid-up, amounted to €2,191 million, corresponding to 1,010,977,439 shares, none with a nominal value, of which 1,010,966,841 are ordinary shares and 10,598 savings shares.

32 Share premium reserve

At June 30, 2018, the share premium reserve stood at €553 million compared with December 31, 2017 (€1,049 million) and it decrease by €496 million following the covering of the loss reported in Saipem's financial statements 2017.

33 Other reserves

At June 30, 2018, 'Other reserves' amounted to negative €86 million (negative €44 million at December 31, 2017) and consisted of the following items:

(€ million)	Dec. 31, 2017	June 30, 2018
Legal reserve	88	88
Investments carried at fair value	1	1
Cash flow hedge reserve	41	(26)
Available for sale financial instruments carried at fair value	(1)	(2)
Cumulative currency translation differences	(154)	(128)
Employee defined benefits reserve	(21)	(21)
Other	2	2
Total	**(44)**	**(86)**

Legal reserve

At June 30, 2018, the legal reserve stood at €88 million. This represents the portion of profits of the parent company Saipem SpA, accrued as per Article 2430 of the Italian Civil Code, that cannot be distributed as dividends.

Investments carried at fair value

The reserve, positive for €1 million, includes the change in fair value of the investments in Nagarjuna Oil Refinery Ltd and Nagarjuna Fertilizers and Chemicals Ltd.

Cash flow hedge reserve

This reserve showed a negative balance at year end of €26 million (positive balance of €41 million at December 31, 2017) which related to the fair value of interest rate swaps, commodity hedges and the spot component of foreign exchange risk hedges at June 30, 2018.
The cash flow hedge reserve is shown net of tax effects of €3 million (€10 million at December 31, 2017).

Available for sale financial instruments carried at fair value

The negative reserve of €2 million includes the fair value of financial instruments available for sale.

Cumulative currency translation differences

This reserve amounted to negative €128 million (negative €154 million at December 31, 2017) 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, 2018, it had a negative balance of €21 million (negative €21 million at December 31, 2017). The reserve is shown net of tax effects.

Other

This item amounted to €2 million (€2 million at December 31, 2017). At June 30, 2018, only the revaluation reserve comprised of the positive revaluation balance following the application of Italian Law No. 413 dated December 30, 1991, Article 26 remains in place. If distributed, 5% of the reserve is to form part of the taxable income and is subject to taxation at 24%.

34 Negative reserve for treasury shares in portfolio

The negative reserve amounts to €95 million (€96 million at December 31, 2017) and it includes the value of treasury shares for the implementation of stock grant plans for Group's senior managers.
The breakdown of treasury shares is as follows:

	Number of shares	Average cost (€)	Total cost (€ million)	Share capital (%)
Treasury shares held at January 1, 2018	14,943,059	6.446	96	1.48
Purchases for 2018	-	-	-	-
Stock grant 2017	124,239	-	(1)	-
Treasury shares held at June 30, 2018	**14,818,820**	**6.446**	**95**	**1.47**

As at June 30, 2018, the share capital amounted to €2,191,384,693. On the same day, the number of shares in circulations was 996,158,619.

35 Guarantees, commitments and risks

Guarantees

Guarantees amounted to €5,565 million (€5,525 million at December 31, 2017), and were as follows:

	Dec. 31, 2017			June 30, 2018		
(€ million)	Unsecured	Other guarantees	Total	Unsecured	Other guarantees	Total
Joint ventures and associates	207	56	263	207	56	263
Consolidated companies	47	720	767	46	513	559
Own	-	4,495	4,495	-	4,743	4,743
Total	**254**	**5,271**	**5,525**	**253**	**5,312**	**5,565**

Other guarantees issued for consolidated companies amounted to €513 million (€720 million at December 31, 2017) and related to independent guarantees given to third parties relating mainly to bid bonds and performance bonds.
Guarantees issued to/through related parties are detailed in Note 49 'Transactions with related parties'.
For details on amounts relating to completed projects in Algeria, see Note 53 'Additional information: Algeria'.

Commitments

Saipem SpA has provided commitments towards customers and/or other beneficiaries (financial and insurance institutions, export credit agencies) relating to the fulfilment of contractual obligations entered into by itself and/or by its subsidiaries or associated companies in the event of non-performance and payment of any damages arising from non-performance.
These commitments guarantee contracts whose overall value amounted to €45,611 million (€46,336 million at December 31, 2017), including both work already performed and the relevant portion of the backlog of orders at June 30, 2018.
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 looked into the contracts that are subject to investigation, and to this end appointed an external legal firm. On July 17, 2013, the Board of Directors analysed the conclusions reached by the external consultants following an internal investigation carried out in relation to a number of brokerage contracts and subcontracts regarding projects in Algeria. The internal investigation was based on the examination of documents and interviews of personnel from the Company and other companies in the Group, excluding those, that to the best knowledge of the Company, would be directly involved in the criminal investigation so as not to interfere in the investigative activities of the Prosecutor. The Board, confirming its full cooperation with the investigative authorities, has decided to convey the findings of the external consultants to the Public Prosecutor of Milan, for any appropriate assessment and initiatives under its responsibility in the wider context of the ongoing investigation. The consultants reported to the Board: (i) that they found no evidence of payments to Algerian public officials through the brokerage contracts or subcontracts examined; (ii) that they found violations, deemed detrimental to the interests of the Company, of internal rules and procedures – in force at the time – in relation to the approval and management of brokerage contracts and subcontracts examined and a number of activities in Algeria. The Board decided to initiate legal action against certain former employees and suppliers in order to protect the interests of the Company, reserving the right to take any further action necessary should additional information emerge.
On June 14, 2013, January 8, 2013 and July 23, 2014 the Milan Public Prosecutor's office submitted requests for extensions to the preliminary investigations. On October 24, 2014, notice was received of a request from the Milan Public Prosecutor to gather evidence before trial by way of questioning the former Chief Operating Officer of the Saipem Engineering & Construction Business Unit and another former manager of Saipem, who are both under investigation in the criminal proceedings. After the request was granted, the Judge for the Preliminary Hearing in Milan set hearings for December 1 and 2, 2014. On January 15, 2015, Saipem SpA defence counsel received notice from the Milan Public Prosecutor's office of the conclusion of preliminary investigations, pursuant to Article 415-*bis* of the Italian code of criminal procedure. Notice was also received by eight physical persons and the legal person of Eni SpA. In addition to the crime of 'international corruption' specified in the request from the Milan Public Prosecutor's office, the notice also contained an allegation against seven physical persons of a violation of Article 3 of Legislative Decree No. 74 of March 10, 2000. This concerned the filing of fraudulent tax returns, in connection with the recording in the books of Saipem SpA of *'brokerage costs deriving from the agency agreement with Pearl Partners signed on October 17, 2007, as well as Addendum No. 1 to the agency agreement entered into August 12, 2009'*, which is alleged to have led subsequently *'to the inclusion in the consolidated tax return of Saipem SpA of profits that were lower than the real total by the following amounts: 2008: -€85,935,000; 2009: -€54,385,926'*.
Criminal proceedings in Italy: on February 26, 2015, Saipem SpA defence counsel received notice from the Judge for the Preliminary Hearing of the scheduling of a preliminary hearing, together with a request for committal for trial filed by the Milan

Public Prosecutor's office on February 11, 2015. Notice was also received by eight physical persons and the legal person of Eni SpA. The hearing was scheduled by the Judge for the Preliminary Hearing for May 13, 2015. During the hearing, the Revenue Office appeared as plaintiff in the proceedings whereas other requests to be admitted as plaintiff were rejected.
On October 2, 2015, the Judge for the Preliminary Hearing rejected the questions of unconstitutionality and those relating to the statute of limitations presented by the defence attorneys and determined as follows:
(i) ruling not to proceed for lack of jurisdiction in regard to one of the accused;
(ii) ruling of dismissal in regard to all of the accused in relation to the allegation that the payment of the commissions for the MLE project by Saipem (approximately €41 million) may have served to enable Eni to acquire the Algerian ministerial approvals for the acquisition of First Calgary and for the expansion of a field in Algeria (CAFC). This measure also contains the decision to acquit Eni, the former CEO of Eni and an Eni executive in regard to any other charge;
(iii) a decree that orders trial, among others, for Saipem and three former Saipem employees (the former Deputy Chairman and CEO, the former Chief Operating Officer of the Engineering & Construction Business Unit and the former Chief Financial Officer) with reference to the charge of international corruption formulated by the Public Prosecutor's office according to which the accused were complicit in enabling Saipem to win seven contracts in Algeria on the basis of criteria of mere favouritism. For the physical persons only (not for Saipem) the committal for trial was pronounced also with reference to the allegation of fraudulent statements (tax offences) brought by the Public Prosecutor's office.

On the same date, at the end of the hearing relating to a section of the main proceedings, the Judge for the Preliminary Hearing of Milan issued a plea bargaining sentence in accordance with Article 444 of the code of criminal procedure for a former executive of Saipem SpA.
On November 17, 2015, the Public Prosecutor of Milan and the Prosecutor General at the Milan Court of Appeal filed an appeal with the Court of Cassation against the first two measures. On February 24, 2016 the Court of Cassation upheld the appeal lodged by the Public Prosecutor of Milan and ordered the transmission of the trial documents to a new Judge for the Preliminary Hearing at the Court of Milan.
With reference to this branch of the proceedings (the so-called 'Eni branch'), on July 27, 2016, the new Judge for the Preliminary Hearing ordered the committal for trial of all the accused parties.
On November 11, 2015, on the occasion of publication of the 2015 corporate liability report of the office of the Public Prosecutor in Milan, it was affirmed that: *'a ruling was recently issued by the Judge for the Preliminary Investigation for the preventive seizure of assets belonging to the accused parties for the sum of €250 million. The ruling confirms the freezing previously decided upon by the foreign authorities of monies deposited in bank accounts in Singapore, Hong Kong, Switzerland and Luxembourg, totalling in excess of €100 million'*. While Saipem is not the target of any such measures, it has come to its attention that the seizure in question involves the personal assets of the Company's former Chief Operating Officer and two other persons accused.
At the same time, following the decree ordering the trial pronounced on October 2, 2015 by the Judge for the Preliminary Hearing, the first hearing before the Court of Milan in the proceedings of the so-called 'Saipem branch' was held on December 2, 2015. During said hearing, Sonatrach asked to be admitted as plaintiff only against the physical persons charged. The Movimento cittadini algerini d'Italia e d'Europa likewise put forward a request to be admitted as plaintiff. The Revenue Office confirmed the request for admission as plaintiffs only against the physical persons accused of having made fraudulent tax returns. At the hearing of January 25, 2016, the Court of Milan rejected the request put forward by Sonatrach and the Movimento cittadini algerini d'Italia e di Europa to be admitted as plaintiff. The Court adjourned to February 29, 2016, reserving the right to pass judgement on the claims put forward by the accused of invalidity of the committals to trial.
At the hearing of February 29, 2016, the Court combined the proceedings with another pending case against a sole defendant (a physical person against whom Sonatrach had appeared as a plaintiff) and rejected the claims of invalidity of the committal to trial, calling on the Public Prosecutor to reformulate the charges against a sole defendant and adjourning the hearing to March 21, 2016. The Court then adjourned the proceedings to the hearing of December 5, 2016 in order to assess whether to combine it with the proceedings described earlier (the so-called Eni branch) for which the Judge for the Preliminary Hearing ordered the committal for trial of all the accused parties on July 27, 2016.
With the order of December 28, 2016 the President of the Court of Milan authorised the abstention request of the Chairman of the Panel of judges.
At the hearing on January 16, 2017, the two proceedings (the so-called Saipem branch and the so-called Eni branch) were combined before a new panel appointed on December 30, 2016.
Once the hearings on evidence finished with the hearing of February 12, 2018, in the subsequent hearings of February 19, 2018 and February 26, 2018, the Public Prosecutor proceeded with the indictment.
Generic extenuating circumstances were not considered to be initially attributable to the defendants and, conversely, that the aggravating circumstance of the transnational crime allegedly subsisted, the Public Prosecutor formulated sentencing requests for the accused natural persons.
With regard to Saipem SpA and Eni SpA the Public Prosecutor requested a fine of €900,000 as the sentence for each company. Furthermore, the Public Prosecutor has requested a 'seizure of assets', equal to currently seized assets, relating to some seizures previously carried out against certain natural persons accused. Therefore, the request for seizure of assets does not concern Saipem SpA.
At the hearing of March 5, 2018:
(i) the Italian Revenue Agency has requested the conviction of only the physical persons indicted as was requested by the Public Prosecutor with the conviction of only the physical persons charged for compensation of the pecuniary and non-pecuniary damage in favour of the Italian Revenue Agency to be liquidated on an equitable basis and with a provisional amount of €10 million;
(ii) Sonatrach has requested the conviction of the accused Samyr Ourayed and sentencing of the latter to the compensation of the damage to be liquidated in equitable way.

The hearings dedicated to arguments by the defence and to the replies by the Public Prosecutor that are scheduled to end on September 19, 2018 are currently under way.
Request for documents from the US Department of Justice: at the request of the US Department of Justice ('DoJ'), in 2013 Saipem SpA entered into a 'tolling agreement' which extended by 6 months the limitation period applicable to any possible violations of federal laws of the United States in relation to previous activities of Saipem and its subsidiaries. The tolling agreement, which has been renewed until November 29, 2015, does not constitute an admission by Saipem SpA of having committed any unlawful act, nor does it imply any recognition on the Company's part of United States jurisdiction in relation to any investigation or proceedings. Saipem therefore offered its complete cooperation in relation to investigations by the Department of Justice, which on April 10, 2014 made a request for documentation relating to past activities of the Saipem Group in Algeria, with which Saipem has complied. On November 29, 2015, the tolling agreement expired and, at the time of writing, no request for an extension has been received from the Department of Justice.
Proceedings in Algeria: in 2010, proceedings were initiated in Algeria regarding various matters and involving 19 parties investigated for various reasons (so-called 'Sonatrach 1 investigation'). The Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures SpA ('Sonatrach') appeared as plaintiff in these proceedings and the Algerian Trésor Public also applied to appear as a plaintiff.
The Algerian company Saipem Contracting Algérie SpA ('Saipem Contracting Algérie') is also part of these proceedings regarding the manner in which the GK3 contract was assigned by Sonatrach. In the course of these proceedings, some bank accounts denominated in local currency of Saipem Contracting Algérie were frozen.
In particular, in 2012 Saipem Contracting Algérie received formal notice of the referral to the Chambre d'accusation at the Court of Algiers of an investigation underway into the company regarding allegations that it took advantage of the authority or influence of representatives of a government-owned industrial and trading company in order to inflate prices in relation to contracts awarded by that company. The GK3 contract was awarded in June 2009 and had an equivalent value of €433.5 million (at the exchange rate in effect when the contract was awarded).
At the beginning of 2013, the 'Chambre d'accusation' ordered Saipem Contracting Algérie to stand trial and further ordered that the aforementioned bank accounts remain frozen. According to the prosecution, the price offered was 60% over the market price. The prosecution also claimed that, following a discount negotiated between the parties subsequent to the offer, this alleged increase was reduced by up to 45% of the price of the contract awarded. In April 2013 and in October 2014, the Algerian Supreme Court rejected a request to unfreeze the bank accounts that had been made by Saipem Contracting Algérie in 2010. The documentation was then transmitted to the Court of Algiers which, in the hearing of March 15, 2015, adjourned the proceedings to the hearing of June 7, 2015, during which, in the absence of certain witnesses, the Court officially handed over the case to a criminal court. The trial commenced with the hearing fixed for December 27, 2015. In the hearing of January 20, 2016, the Algiers Public Prosecutor requested the conviction of all 19 defendants accused in the 'Sonatrach 1' trial.
The Algiers Public Prosecutor requested that Saipem Contracting Algérie be fined 5 million Algerian dinars (approximately €43,000 at the current rate of exchange).
The Algiers Public Prosecutor also requested the confiscation of the alleged profit, that will be ascertained by the Court, of all 19 parties whose conviction has been requested (including Saipem Contracting Algérie).
For the offence with which Saipem Contracting Algérie is charged, local regulations prescribe a fine as the main punishment (up to a maximum of about €50,000) and allow, in the case of the alleged offence, additional sanctions such as the confiscation of the profit arising from the alleged offence (which would be the equivalent of the amount allegedly over the market price of the GK3 contract as far as the profit is ascertained by the judicial authority) and/or disqualification sanctions.
On February 2, 2016, the Court of Algiers issued the first instance ruling. Amongst other things, this ruling ordered Saipem Contracting Algérie to pay a fine of about 4 million Algerian Dinars (corresponding to about €34,000). In particular Saipem Contracting Algérie was held to be responsible, in relation to the call for bids for the construction of the GK3 gas pipeline, of 'an increase in price during the awarding of contracts signed with a public company of an industrial and commercial character in a way that causes benefit to be derived from the authority or influence of representatives of said company', an act punishable according to Algerian law. The ruling also returned two bank accounts denominated in local currency to Saipem Contracting Algérie. These held a total of about €70 million (amount calculated at the exchange rate as at June 30, 2018), which were frozen in 2010.
The customer Sonatrach, which appeared as plaintiff in the proceedings, reserved the right to pursue its claims in the civil courts. The request by the Algerian Trésor Civil to appear as plaintiff was rejected.
Pending the filing of the reasons thereof, the ruling of February 2, 2016 of the Court of Algiers was challenged in the Court of Cassation: by Saipem Contracting Algérie (which requested acquittal and had announced that it would challenge the decision); by the Prosecutor General (who had requested the imposition of a fine of 5 million Algerian dinars and the confiscation, requests that were rejected by the Court, which, as said, fined Saipem Contracting Algérie the lesser amount of about 4 million Algerian dinars); by the Trésor Civil (whose request to be admitted as plaintiff against Saipem Contracting Algérie had been – as already stated – rejected by the Court); by all the other parties sentenced, in relation to the cases concerning them.
Owing to these challenges, the decision of the Court of Algiers was fully suspended and pending the ruling of the Court of Cassation:
- the payment of the fine of approximately €34,000 is suspended; and
- the unfreezing of the two banks accounts containing a total of about €70 million (amount calculated at the exchange rate as at June 30, 2018) 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. This civil action was not initiated by Sonatrach.

The appeal before the Court of Cassation has not yet been scheduled.
In March 2013, the legal representative of Saipem Contracting Algérie was summoned to appear at the Court of Algiers, where he received verbal notification from the local investigating judge of the commencement of an investigation ('Sonatrach 2') underway

'into Saipem for charges pursuant to Articles 25a, 32 and 53 of Anti-Corruption Law No. 01/2006'. The investigating judge also requested documentation (Articles of Association) and other information concerning Saipem Contracting Algérie, Saipem and Saipem SA.

Amicable Settlement of Mutual Differences - Saipem Sonatrach agreement - Press Release of February 14, 2018: on February 14, 2018, the following joint press release was issued.

Sonatrach and Saipem announce the amicable settlement of mutual differences.

San Donato Milanese (MI), February 14, 2018 - Sonatrach and Saipem have decided to settle their mutual differences amicably and have signed an agreement to put an end to litigations in course concerning the contract for the construction of a gas liquefaction plant in Arzew (Arzew); the contract for the realisation of three trains of LPG, of an oil separation unit (LDPH) and of installations for the production of condensates in Hassi Messaoud (LPG); the contract for the realisation of the LZ2 24'' LPG pipeline (line and station) in Hassi R'Mel (LZ2); and the contract for the construction of a gas and production unit in the Menzel Ledjmet field on behalf of the association Sonatrach/FCP (MLE). This agreement is the result of constructive dialogue and represents an important step forward in relations between the two companies. Sonatrach and Saipem have expressed their satisfaction at having reached a definitive agreement that puts an end to litigations that were detrimental to both parties.

Ongoing investigations - Public Prosecutor's Office of Milan - Brazil

On August 12, 2015, the Public Prosecutor's office of Milan served Saipem SpA with a notice of investigation and a request for documentation in the framework of new criminal proceedings, for the alleged crime of international corruption, initiated by the Court of Milan in relation to a contract awarded in 2011 by the Brazilian company Petrobras to Saipem SA (France) and Saipem do Brasil (Brazil). Investigations are still underway.

According to what was learned only through the press, this contract is being looked into by the Brazilian judicial authorities in relation to a number of Brazilian citizens, including a former associate of Saipem do Brasil.

In particular, on June 19, 2015, Saipem do Brasil learned through the media of the arrest (in regard to allegations of money laundering, corruption and fraud) of a former associate, as a result of a measure taken by the Brazilian Public Prosecutor's office of Curitiba, in the framework of a judicial investigation in progress in Brazil since March 2014 ('Lava Jato' investigation). On July 29, 2015, Saipem do Brasil then learned through the press that, in the framework of the conduct alleged against the former associate of Saipem do Brasil, the Brazilian Public Prosecutor's office also alleges that Petrobras was unduly influenced in 2011 to award Saipem do Brasil a contract called 'Cernambi' (for a value of approximately €115 million). This is purportedly deduced from the circumstance that in 2011, in the vicinity of the Petrobras headquarters, said former associate of Saipem do Brasil claims to have been the target of a robbery in which approximately 100,000 reals (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 witnesses heard in the criminal proceedings underway in Brazil against this former associate, as well as in the framework of the works of the parliamentary investigative committee set up in Brazil on the 'Lava Jato' case, have stated that they were unaware of any irregularities regarding Saipem's activities.

The hearing set for November 11, 2015, in which the former associate of Saipem do Brasil and another two defendants were to be questioned, has therefore been postponed to a later date to be set. Petrobras appeared as a plaintiff ('Assistente do Ministerio Publico') in the proceedings against the three physical persons charged. The proceedings were then resumed on June 9, 2017 as the Brazilian Attorney General considered that the conditions for keeping confidential an agreement signed in October 2015 by the former associate of Saipem do Brasil – who, with such agreement committed himself to substantiating with evidence some of the statements made – had ceased. The Attorney General noted in particular that attempts to substantiate such statements had not been successful, the reason why the content of the statements contained in the additional agreement had not been maintained confidential. At the hearing on June 9, 2017, the depositions of the three defendants were obtained, among them the former associate of Saipem do Brasil and a former Petrobras official.

Saipem do Brasil's former associate, with regard to the theft of 100,000 Brazilian reals (approximately €26,000) in October 2011, said that money was needed to pay the costs of real estate for a company he was managing on behalf of a third party vis-à-vis Saipem (that is, the former Petrobras official charged in the same proceeding who confirmed that statement).

The former Saipem do Brasil 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 associate of Saipem do Brasil and the former Petrobras official charged in the same proceeding, while offering a reconstruction of partially different facts, reported, that the possibility of some inappropriate payments was discussed with reference to certain contracts of Saipem do Brasil but in any case no payment was made by the Saipem Group. The former Saipem do Brasil associate and the former Petrobras official charged in the same proceeding stated that the contracts awarded by the client to the Saipem Group were won through regular bidding procedures. The first degree proceedings in Brazil against the former associate of Saipem do Brasil and another two defendants is ongoing.

The audit that was concluded in 2016 was relaunched with the support of the same third party consultant used earlier and with the same methodology in order to analyse some of the information mentioned during the depositions of June 9, 2017.

The audit report, issued on July 18, 2018, confirmed 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 Saipem Group has not received any notification in this regard from the Brazilian judicial authorities.

EniPower

As part of the inquiries commenced by the Milan Public Prosecutor (criminal proceedings 2460/2003 R.G.N.R. pending at the Milan Public Prosecutor's office) into contracts awarded by EniPower to various companies, Snamprogetti SpA (now Saipem SpA as engineering and procurement services contractor), together with other parties, were served a notice informing them that they were under investigation, pursuant to Article 25 of Legislative Decree No. 231/2001. Preliminary investigations ended in August 2007, with a favourable outcome for Snamprogetti SpA, which was not included among the parties still under investigation for whom committals for trial were requested. Snamprogetti subsequently brought proceedings against the physical and legal persons implicated in transactions relating to the Company and reached settlements with a number of parties that requested the application of settlement procedures. Following the conclusion of the preliminary hearing, criminal proceedings continued against former employees of the above companies, as well as against employees and managers of a number of their suppliers, pursuant to Legislative Decree No. 231/2001. Eni SpA, EniPower SpA and Snamprogetti SpA presented themselves as plaintiffs in the preliminary hearing. In the preliminary hearing related to the main proceeding of April 27, 2009, the judge for the preliminary hearing requested that all parties that did not request the application of plea agreements stand trial, with the exception of several parties for whom the statute of limitations now applied. In the hearing of March 2, 2010, the Court confirmed the admission as plaintiffs of Eni SpA, EniPower SpA and Saipem SpA against the defendants under the provisions of Legislative Decree No. 231/2001. The defendants of the other companies involved were also sued. Subsequently, at the hearing of September 20, 2011, sentence was passed which included several convictions and acquittals for numerous physical and legal defendants, the latter being deemed responsible for unlawful administrative acts, with fines being imposed and value confiscation for significant sums ordered. The Court likewise rejected the admission as plaintiffs of the parties accused of unlawful administrative acts pursuant to Legislative Decree No. 231/2001. The convicted parties challenged the above ruling within the set deadline. On October 24, 2013, the Milan Court of Appeal essentially confirmed the first instance ruling, which it modified only partially in relation to a number of physical persons, against whom it dismissed the charges, ruling that they had expired under the statute of limitations. The accused parties have filed an appeal with the Court of Cassation. On November 10, 2015, Criminal Section VI of the Supreme Court, in its ruling on the appeals lodged by the parties against the ruling of the Milan Court of Appeal, set aside the challenged ruling regarding legal persons, and the civil law rulings regarding physical persons and deferred a new ruling to another section of the Milan Court of Appeal which set the court date for November 28, 2017.
At the hearing of November 28, 2017, the Court of Appeal, ruling at the time of postponement by the Court of Cassation, upheld the first instance judgement, partially modifying it, excluding the liability of two legal persons and declaring that it would not proceed against a defendant who had, the meantime, died, confirming the rest of the sentence by the Court of Appeal which was not subject to annulment by the Court of Cassation. The grounds of the judgement are currently being filed.

Fos Cavaou

With regard to the Fos Cavaou ('FOS') project for the construction of a regasification terminal, the client Société du Terminal Méthanier de Fos Cavaou ('STMFC', now Fosmax LNG) in January 2012 commenced arbitration proceedings before the International Chamber of Commerce in Paris ('Paris ICC') against the contractor STS [a French 'société en participation' made up of Saipem SA (50%), 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 claimed the assessment of such costs to another arbitration tribunal, unless otherwise agreed by the parties.
Parallel with the aforementioned appeal before the Conseil d'Etat, on August 18, 2015, Fosmax LNG also filed an appeal with the Court of Appeal of Paris to obtain the annulment of the award and/or the declaration of nullity of the relevant exequatur, the enforceability of which had been recognised and of which Fosmax had been notified on July 24, 2015. On February 21, 2017, the Court of Appeal declared itself incompetent to decide on the annulment of the award and stated that it would postpone the subsequent decision on the alleged nullity of the exequatur. On July 4, 2017, the Court annulled the exequatur issued by the President of the Tribunal de grande instance and sentenced STS to pay the costs (€10,000) of the proceeding in favour of Fosmax.
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 société en participation STS) be condemned in full on the payment of the mise en régie costs as quantified above in addition to interests for delays and legal fees. The Arbitration Tribunal was officially

constituted on January 19, 2018 when the Chairman was confirmed and, in accordance with the calendar agreed between the Parties, on April 13, 2018 Fosmax filed its Mémoire en demande in which it detailed its demands at €35,926,872 in addition to interest for late payments of approximately €4.2 million. STS filed its brief and response on July 13, 2018. The hearings will be held starting on February 25, 2019.

Arbitration on the Menzel Ledjmet Est project ('MLE'), Algeria

On December 23, 2013, Saipem filed a request for arbitration with the International Chamber of Commerce in Paris ('Paris ICC') with reference to the contract entered into on March 22, 2009 by Saipem SpA and Saipem Contracting Algérie SpA (collectively, 'Saipem') on the one hand, and Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures SpA ('Sonatrach') and First Calgary 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 amount to a total the equivalent of approx. €280.5 million, taking into consideration the new counterclaim, proposed by Sonatrach alone, of a payment in its own favour of 25% of the sum of approx. €133.7 million (a sum equivalent to an allegedly unjustified increase in costs in addition to moral damage, estimated at not less than €20 million). The Arbitration Panel accepted the new petition filed by Sonatrach, on which it will have, therefore, to reach a decision. Saipem filed its reply on January 15, 2016.
Sonatrach and FCP filed their replies on May 15, 2016 and on June 30, 2016 Saipem filed its reply to the counterclaims. The hearings were held in July 2016. On November 29, 2017, the parties were notified of the partial award issued by the Arbitration Tribunal on November 20, 2017, which, except for some limited exceptions, only ruled on eligibility ('an debeatur') of the reciprocal claims without proceeding to the relevant quantification, postponing the decision on the relevant quantification ('quantum debeatur') of the allowed claims to a subsequent final award – which will likely be issued by the end of 2019. On December 29, 2017, Saipem submitted to the Arbitral Tribunal a request for correction and interpretation of some rulings of the partial award. FCP and Sonatrach submitted their replies on January 26, 2018, requesting the rejection of the request for correction and interpretation presented by Saipem.
On February 14, 2018, Saipem and Sonatrach announced that they '*have decided to settle their mutual differences amicably*' and that they have '*signed an agreement to put an end to litigations in course*', including the proceedings regarding MLE. '*Sonatrach and Saipem have expressed their satisfaction at having reached a definitive agreement that puts an end to litigations that were detrimental to both parties*'.
As things stand, MLE arbitration is ongoing but only between Saipem and FCP. Saipem and FCP have, moreover, agreed to suspend the arbitration procedure, as it stands, until August 3, 2018.

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

With the measure adopted with Resolution No. 18949 of June 18, 2014, Consob decided to apply a monetary fine of €80,000 to Saipem SpA for an alleged delay in the issuing of the profit warning issued by the company on January 29, 2013 and, 'with a view to completing the preliminary investigation', to transmit a copy of the adopted disciplinary measure to the Public Prosecutor's office at the Court of Milan. On March 12, 2018, the Public Prosecutor's Office at the Court of Milan – at the end of its investigations – notified Saipem SpA of the 'Notice to the suspect of the conclusion of the preliminary investigations' with reference to the hypothesis of an administrative offence referred to in Articles 5, 6, 7, 8, 25-*ter*, lett. b) and 25-*sexies* of Legislative Decree No. 231/2001, allegedly committed until April 30, 2013 '*for not having prepared an organisational model suitable to prevent the completion*' of the following alleged offences:

(i) offence pursuant to Article 185 of Legislative Decree No. 58/1998 (in conjunction with Article 114 of Legislative Decree No. 58/1998 and Article 68, paragraph 2, of the Issuers Regulation), allegedly committed on October 24, 2012, with reference to the press release published for the approval of the quarterly report as at September 30, 2012 by Saipem SpA and the related conference call of October 24, 2012 with external analysts;
(ii) offence pursuant to Article 2622 of the civil code (continuing illegal offence with Article 2622, paragraphs 1, 3 and 4, old civil code formulation was in force at the time of the facts), allegedly committed on April 30, 2013, with reference to the 2012 consolidated and separate financial statements of Saipem SpA approved by the Board of Directors on March 13, 2013 and by the Shareholders' Meeting on April 30, 2014;
(iii) offence pursuant to Article 185 of Legislative Decree No. 58/1998, allegedly committed from March 13, 2013 to April 30, 2013, with reference to press releases issued to the public regarding the approval of the 2012 consolidated and separate financial statements of Saipem SpA.

In addition to the Company, the following physical persons are also being investigated in relation to the same allegations as those above:

- for the alleged crime under (i): the two Chief Executive Officers and the Chief Operating Officer of the Engineering & Construction Business Unit of Saipem SpA in office at the date of the press release of October 24, 2012, as they '*through the press release dated October 24, 2012 issued on the occasion of the approval by the Board of Directors of the quarterly report as at September 30, 2012 and during the related conference call ..., they spread false news – which was incomplete and reticent – concerning the economic and financial situation of Saipem SpA, ..., capable of causing a significant alteration of the price of its ordinary shares*'; and

- for the alleged crimes under (ii) and (iii): the Chief Executive Officer and the Manager in charge of preparing the accounting and corporate documents who was in office at the date of approval of the 2012 consolidated and separate financial statements of Saipem SpA as they:

  in relation to the alleged offence (ii), they would have '*disclosed in the consolidated and separate financial statements of Saipem SpA, approved by the Board of Directors and by the Shareholders' Meeting on March 13, 2013 and April 30, 2013, material facts that do not correspond to the truth, although subject to evaluation, as well as the omission of information on the economic, asset and financial situation of Saipem SpA, the reporting of which is required by law, ..., and, in particular:*
  - *in contrast to the provisions of paragraphs 14, 16, 17, 21, 23, 25, 26 and 28 of IAS 11, no extra costs related to delays in the execution of activities and late penalties were recorded in the costs for the entire lifespan of the project, ... for a total of €245 million:*

  and the effect was:
    1) *they recorded higher revenues for €245 million in the income statement compared to the amount accrued, on the basis of a state of economic progress that did not consider the extra costs described above in the costs for the lifespan of the project, in contrast with paragraphs 25, 26 and 30 of the IAS 11;*
    2) *they omitted to record the expected loss of the same amount ... as the cost of the year, in contrast with paragraph 36 of IAS 11, thus recording an operating result higher than the pre-tax profit of €1,349 million in the income statement, in place of the actual operating result of €1,106 million, and a higher than realistic shareholders' equity of €17,195 million, instead of the actual shareholders' equity of €16,959 million...*'.

  In relation to the alleged offence (iii), '*with the aforementioned press releases, they spread the news of the approval of the 2012 consolidated and separate financial statements of Saipem SpA, in which material facts that did not correspond to the truth were disclosed, and more specifically revenues higher than actual revenues for €245 million and an EBIT higher than reality for the corresponding amount, ...*'.

On April 11, 2018 Saipem SpA received the notice of hearing set for October 16, 2018, together with the request for indictment against Saipem SpA formulated on April 6, 2018 by the Public Prosecutor.
On July 28, 2014, Saipem SpA lodged an appeal at the Court of Appeal in Milan against the above mentioned Consob Resolution No. 18949 dated July 18, 2014 to impose a monetary fine. By decree filed on December 11, 2014, the Court of Appeal of Milan rejected the opposition made by Saipem SpA which then appealed to the Court of Cassation against the decree issued by the Court of Appeal of Milan. The appeal was discussed on November 7, 2017. On February 14 the Court of Cassation filed its decision rejecting Saipem's petition for full compensation on the grounds of the '*absolute uniqueness of the situation... concerning the interpretation of the phrase 'without delay' in the text of the 1st paragraph of Article 114 TUF*'.
On April 28, 2015, a number of foreign institutional investors initiated legal action against Saipem SpA before the Court of Milan, seeking judgement against the Company for the compensation of alleged loss and damage (quantified in about €174 million), in relation to investments in Saipem shares which the claimants alleged that they had effected on the secondary market. In particular, the claimants sought judgement against Saipem requiring the latter to pay compensation for alleged loss and damage which purportedly derived from the following: (i) with regard to the main claim, from the communication of information alleged to be 'imprecise' over the period from February 13, 2012 and June 14, 2013; or (ii) alternatively, from the allegedly 'delayed' notice, only made on January 29, 2013, with the first 'profit warning' (the so-called 'first notice') of privileged information which would have been in the Company's possession from July 31, 2012 (or such other date to be established during the proceedings, identified by the claimants, as a further alternative, on October 24, 2012, December 5, 2012, December 19, 2012 or January 14, 2013), together with information which was allegedly 'incomplete and imprecise' disclosed to the public over the period from January 30, 2013 to June 14, 2013, the date of the second 'profit warning' (the so-called 'second notice'). Saipem SpA appeared in court, fully disputing the adverse party's requests, challenging their admissibility and, in any case, their lack of grounds.
As per the order made by the Judge at the hearing of May 31, 2017, the parties proceeded to deposit the briefs referred to in Article183, paragraph 6, c.p.c., and, on February 1, 2018, a hearing is scheduled for admission of the measures of inquiry.
With the same ordinance of May 31, 2017, the Court ordered the separation of the judgement for five of the parties involved in the above proceedings and this separate proceeding – number R.G. 28177/2017 – was discontinued pursuant to Article 181 of the Italian Civil Code on November 7, 2017.
With the lifting of the reserve taken at the hearing on February 1, 2018, the Judge, by order of February 2, 2018, postponed the proceeding to the hearing of July 19, 2018. pursuant to Article 187, paragraph 2, c.p.c. During this hearing, the judge assigned the deadline of October 2, 2018 for the filing of final briefs and of October 22, 2018 for the replies. The case is, therefore, still at the opening arguments on preliminary issues.
With a writ of summons dated December 4, 2017, twentyseven corporate investors took legal action before the Court of Milan – section specialised in the field of corporate law, against Saipem SpA. and two former Chief Executive Officers of said company, requesting that they are jointly condemned to pay compensation (with respect to the two former members of the company, limited to their periods of stay in office) for compensation for damages, material and non-material, allegedly suffered due to an alleged manipulation of information returned to the market during the period between January 2007 and June 2013.
Saipem SpA's liability was calculated pursuant to Article 1218 of the Civil Code (contractual liability) or pursuant to Article 2043 of the Civil Code (non-contractual liability) or, pursuant to Article 2049 of the Civil Code (owner and client liability) for the illegal conduct committed by the two former company representatives.
Damages were not quantified by the investors, who reserved the right to quantify damages during the trial.
On June 5, 2018, the first hearing was held and the proceedings are identified by the number R.G. 58563/2017. At the hearing the judge assigned the terms for the evidence briefs.
The Company appeared in court to contest the claims in full, pleading inadmissibility and in any case the groundlessness in fact and in law.
Demands for out-of-court settlement and mediation proceedings: with regard to the alleged delays in providing information to the markets, over 2015, 2016 and 2017, Saipem SpA received a number of out-of-court demands and mediation applications.

As far as the out-of-court claims are concerned, the following have been made: (i) in April 2015 by 48 institutional investors acting on their own behalf and/or on behalf of the funds managed by them respectively amounting to about €291.9 million, without specifying the value of the claims made by each investor/fund (subsequently, 21 of these institutional investors, together with a further 8 presented applications for mediation for a total amount of about €159 million; 5 of these institutional investors together with another 5, presented applications for mediation in relation to the total amount of about €21.9 million); (ii) in September 2015 by 9 institutional investors acting on their own behalf and/or for the funds managed by them respectively for a total amount of about €21.5 million, without specifying the value of the claims for compensation made by each investor/fund (subsequently 5 of these institutional investors together with another 5, made an application for mediation for a total amount of about €21.9 million); (iii) over 2015 by two private investors amounting respectively to about €37,000 and €87,500; (iv) during the month of July 2017 from some institutional investors for approximately €30 million; (v) on December 4, 2017, from 141 institutional investors for an unspecified amount (136 of these investors on June 12, 2018 renewed their out-of-court request, again for an unspecified amount); (vi) on April 12, 2018 for about €150-200 thousand from a private investor; and (vii) on July 3, 2018 by a private investor for about €330 thousand.
Those applications where mediation has been attempted, but with as yet no outcome, involve five main demands: (a) in April 2015 by 7 institutional investors acting on their own behalf and/or for the funds managed by them, in relation to about €34 million; (b) in September 2015 by 29 institutional investors on their own behalf and/or for the funds managed by them respectively, for a total amount of about €159 million (21 of these investors, together with another 27, submitted out-of-court demands in April 2015, complaining that they had suffered loss and damage for a total amount of about €291 million without specifying the value of the claims for compensation for each investor/fund); (c) in December 2015 by a private investor in the amount of about €200,000; and (d) in March 2016 by 10 institutional investors on their own behalf and/or for the funds managed by each respectively, for a total amount of about €21.9 million (5 of these investors together with another 4 had presented out-of-court applications in September 2015, complaining they had suffered loss and damage for a total amount of about €21.5 million without specifying the value of the compensation sought by each investor/fund. Another 5 of these investors, together with a further 43, had presented out-of-court applications in April 2015 alleging they had suffered loss and damage for an amount of about €159 million without specifying the value of the compensation sought by each investor/fund); from a private investor in April 2017 for approximately €40,000.
Saipem SpA has replied to the out-of-court claims and the mediation, denying all liability. At the date of approval of the half-yearly financial statements 2018 by the Board of Directors, the aforementioned demands for out-of-court settlements and/or mediation were not subject to legal action, except for the matters specified above in relation to the two cases pending before the Court of Milan.

Dispute with Husky - Sunrise Energy Project in Canada

On November 15, 2010, Saipem Canada Inc ('Saipem') and Husky Oil Operations Ltd ('Husky') (the latter for account of the Sunrise Oil Sands Partnership formed by BP Canada Energy Group ULC and Husky Oil Sands Partnership, in turn formed by Husky Oil Operations Ltd and HOI Resources Ltd), signed an Engineering, Procurement and Construction contract No. SR-071 (the 'Contract'), prevalently on a reimbursable basis, relating to the project called Sunrise Energy (the 'Project').
During the execution of the works, the parties agreed several times to modify the contractual payment formula. Specifically: (i) in October 2012, the parties established that the works were to be paid for on a lump-sum basis, agreeing the amount of CAD 1,300,000,000 as contract price; (ii) subsequently, in early 2013, an incentive system was agreed that provided for Saipem's right to receive additional payments upon achieving certain objectives; (iii) starting from April 2014, the parties entered into numerous written agreements whereby Husky accepted to reimburse Saipem for the costs incurred in excess of the lump sum amount previously agreed, thus determining, according to Saipem, a contract change from lump sum to reimbursable. As the end of the works approached, however, Husky stopped paying what it owed as reimbursement and, in March 2015, finally terminated the Contract, claiming that Saipem had not complied with the contractual deadline for conclusion of the works.
In light of the above, on March 16, 2015 Saipem took legal action citing Husky, the aforesaid partnerships and the related members before the Court of Queen's Bench of Alberta, requesting, among other things, that the court declare the illegitimacy of the termination of the Contract by Husky and sentence it to the payment of: (i) more than CAD 800 million for damages that include the payments not made on a reimbursable basis, damages resulting from the termination of the contract, lost profits and the unjustified enrichment of Husky at the expense of Saipem; or, alternatively, (ii) the market value of the services, materials and financing rendered.
In September 2015, Husky notified Saipem of a Request for Arbitration (Alberta Arbitration Act), affirming that, as a result of the reduction of the scope of work requested by Husky, the contractual lump sum price agreed with Saipem should be reduced proportionally on the basis of a specific contractual provision in this sense. On the basis of this, Husky asked that Saipem be ordered to pay the related value, quantifying this claim as CAD 45,684,000.
On October 6, 2015, Husky sued Saipem in the Court of Queen's Bench of Alberta, claiming, among other things: (i) that the payments it had made to Saipem, which were in excess of the lump sum amount agreed between the parties, were justified by Saipem's alleged threats to abandon the works if such additional payments were not made (economic duress); and (ii) that even after the execution of such payments, the performances of Saipem did not improve, forcing Husky to terminate the contract and complete the works on its own. As a result, Husky asked the Canadian court to order Saipem to pay CAD 1.325 billion for alleged damages, an amount that includes, among other things: (i) payments in excess with respect to the agreed lump sum price; (ii) costs to complete the works following termination of the contract; (iii) damages for lost profits and the penalty for alleged delay in completion of the Project.
In the hearing of January 14, 2016, Saipem requested that the pending proceedings be heard jointly before the Queen's Bench Court of Alberta and that arbitration be suspended in order to include the relative claims in the proceedings to be heard jointly. On May 27, 2016 Saipem filed a short reply requesting that the Court declare invalid the arbitration proceedings commenced by Husky. At the hearing for the discussion of this petition, held on July 4, 2016, the judge rejected the request to declare the arbitration procedure invalid initiated by Husky which is ongoing.

In March 2018, the parties entered into an arbitration agreement by which they agreed to unite all the disputes pending between them, as described above, in a single 'ad hoc' arbitration proceeding based in Canada. In the Statement of Claim filed by Saipem on April 30, 2018 in the new arbitration procedure, Saipem requested: (i) damages for over CAD 508 million; (ii) damages to be calculated by the court following adjustments to the contract price due to additional work resulting from the contractual breaches by Husky, or on a quantum meruit basis; (iii) punitive damages to be determined; (iv) interest in the amount of CAD 90 million (or to be calculated by the court); (v) legal expenses; (vi) any other damages awarded by the court. In the Statement of Claim filed by Husky on April 30, 2018 in the new arbitration procedure, Husky requested: (i) compensation for approximately CAD 1.37 billion as compensation for alleged damages (this amount includes, inter alia, payments allegedly in excess of the agreed lump-sum price; the costs for completing the work after the termination of the contract; the loss of profit and the liquidated damages for delay for the alleged delayed completion of the Project); (ii) interest to be calculated by the court; (iii) legal expenses; (iv) any other damages awarded by the court. On June 8, 2018, the parties filed their respective Statements of Defence. The award may be issued by 2020-2021.

Arbitration with GLNG - Gladstone Project (Australia)

On January 4, 2011, Saipem Australia Pty Ltd ('Saipem') entered into the Engineering, Procurement and Construction Contract (the 'Contract') relating to the Gladstone LNG project (the 'Project') with GLNG Operations Pty Ltd ('GLNG') in the capacity of agent of the joint venture between Santos GLNG Pty Ltd, PAPL (Downstream) Pty Ltd and Total E&P Australia.
During the execution of the Project, Saipem accrued and presented to GLNG contractual claims that were entirely rejected by GLNG. A phase of negotiations began between the parties but did not lead to any positive results.
Therefore, on October 9, 2015, Saipem submitted a request for arbitration against GLNG requesting:
- a quantum meruit claim based on the alleged invalidity of the Contract (a claim that was rejected during the arbitration procedure on the basis of a partial award);
- claims based on the contract.

On November 6, 2015, GLNG filed its counterclaim requesting the rejection of the claims made by Saipem and requesting in turn compensation for damages for alleged defective works with particular reference to the coating of the entire line and to the cathodic protection system.
At present, Saipem claims in the arbitration amount to approximately AUD 254 million, while the GLNG counterclaim amounts to approximately AUD 1.1 billion, corresponding to the GLNG assessment of the pipeline replacement costs; and AUD 24 million corresponding to the GLNG assessment of the costs for the adoption of temporary adjustment measures.
The next hearings will be held in August 2018. The award is expected by the end of 2018/beginning of 2019.

Dispute with South Stream Transport BV - South Stream Project

On November 10, 2015, Saipem SpA filed a request for arbitration against South Stream Transport BV ('SSTBV') with the International Chamber of Commerce (ICC) of Paris. Saipem's initial claim amounted to about €759.9 million by way of consideration due both for the suspension of work (requested by the client for the period from December 2014 to May 2015) and for the subsequent termination for convenience of the contract notified on July 8, 2015 by SSTBV. The request may be supplemented by Saipem by claims for costs incurred directly by the termination for convenience and relating to works that are still in progress or which have not yet been completely calculated. ICC notified SSTBV of Saipem's request for arbitration on December 15, 2015. SSTBV filed its reply on February 16, 2016. In its reply, SSTBV challenged all of Saipem's claims and reserved the right to make a counterclaim at a subsequent stage of the arbitration process.
On September 30, 2016, Saipem filed its own Memorial (Statement of Claim), in which, on the basis of the report drawn up by its own quantum expert, the amount of the claims against SSTBV has been reduced to approx. €678 million (with the right to integrate this in the course of arbitration).
On March 10, 2017, SSTBV deposited its Counter-Memorial, in which, in addition to rejecting Saipem's requests, compensation was claimed:
- mainly for damages of around €541 million for alleged misrepresentations that would have led the defendant to enter into a contract with Saipem;
- additionally or alternatively, for damages for: (i) approximately €138 million, for payments made by SSTBV to a significantly higher level than contractually due; and (ii) approximately €48 million, for liquidated damages motivated by alleged delays; and
- mainly and alternatively, damages for approximately €10 million for alleged damage to the pipes owned by the defendant.

On November 3, 2017, Saipem filed its Reply Memorial in which it clarified its claims for €644,588,545.
Filing of the related Rejoinder by SSTBV is pending. The discussion hearings before the arbitration panel have been set for June 2019.

Arbitration with Kharafi National Closed Ksc ('Kharafi') - Jurassic Project

With reference to the Jurassic project and the relating EPC contract between Saipem SpA ('Saipem') and Kharafi, on July 1, 2016 Saipem filed a request for arbitration with the London Court of International Arbitration ('LCIA') with which it requested that Kharafi be sentenced:
(1) to return KWD 25,018,228, cashed by Kharafi through the enforcement of a performance bond following the termination of the contract with Saipem;
(2) to refund KWD 20,135,373 for costs deriving from the suspension of the procurement activities, particularly those connected with the purchase by Saipem of 4 turbines;
(3) to refund KWD 10,271,409 for engineering costs borne by Saipem prior to the termination of the contract by Kharafi;
for a total of KWD 55,425,010 (equal to approximately €153,065,479 on the basis of the exchange rate at December 31, 2017).
Kharafi responded to Saipem's request for arbitration rejecting the claims therein and demanding, by way of counterclaim, that Saipem be sentenced to pay an amount not yet quantified but including, among other things:

(1) the costs allegedly sustained by Kharafi due to Saipem's alleged non-fulfilment of the contract (more than KWD 32,824,842); and
(2) the damage allegedly suffered by Kharafi following the enforcement of a guarantee in a sum equivalent to KWD 25,136,973 issued by Kharafi to the final customer of the Jurassic project.

The Chairman of the Arbitral Tribunal was appointed and the arbitration calendar was agreed on the basis of which, on April 28, 2017 Saipem filed its Statement of Claim and Kharafi filed its Statement of Defence and Counterclaim on October 16, 2017. The Kharafi counterclaim was set out in KWD 102,737,202 (approximately €283 million). Saipem filed its response on February 6, 2018 and Kharafi the related Reply and Defence to Counterclaim on April 6, 2018. It is expected that the hearings will be held in February 2019 and that the award will be issued at the end of the same year.

Arbitration with CPB Contractors Pty Ltd (formerly Leighton Contractors Pty Ltd ('CPB') Gorgon LNG Jetty Project

In August 2017, CPB notified Saipem SA and Saipem Portugal Comércio Marítimo, Sociedade Unipessoal Lda ('Saipem') of an application for arbitration.

The dispute stems from the construction of the dock of an LNG plant for the Gorgon LNG project in Western Australia. The main contract for engineering and construction of the pier ('Jetty Contract') was signed on November 10, 2009 by CPB, Saipem SA, Saipem Portugal Comércio Marítimo, Sociedade Unipessoal Lda and Chevron Australia Pty Ltd ('Chevron').

CPB based on alleged contractual breaches by Saipem SA and Saipem Portugal Comércio Marítimo, Sociedade Unipessoal Lda has requested that Saipem be ordered to pay approximately AUD 1.39 billion. Saipem believes that the CPB claims are totally unfounded and has filed its statement in which it has requested the rejection of all the claims made by CPB and filed a counterclaim for more than AUD 50 million. It is noted that CPB, in 2016, had requested compensation for the same damages (requested in 2017 against Saipem SA and Saipem Portugal Comércio Marítimo, Sociedade Unipessoal Lda in this arbitration) in another arbitration still pending against Chevron, asserting in that case the responsibility of Chevron for the same items of damage. According to the arbitration calendar agreed between the parties, it is currently provided that the hearings will take place starting on February 25, 2020 and that the award will be issued by the end of the same year.

Consob Resolution of March 2, 2018

With reference to Consob Resolution No. 20324 of March 2, 2018 ('the Resolution') the contents of which are described in paragraph 'Information regarding censure by Consob pursuant to Article 154-*ter*, subsection 7, of Legislative Decree No. 58/1998, and the notice from the Consob Offices dated April 6, 2018', the Board of Directors of Saipem resolved on March 5, 2018 to appeal the Resolution in the competent courts.

The appeal to the TAR - Lazio was filed on April 27, 2018. Following access to the administrative proceedings, on May 24, 2018 Saipem filed with the TAR - Lazio additional grounds for appeal against the aforementioned Resolution.

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'.

36 Net sales from operations

Net sales from operations were as follows:

	First half	
(€ million)	**2017**	**2018**
Revenues from sales and E&C services	4,020	3,331
Revenues from sales and Drilling services	570	467
Total	**4,590**	**3,798**

Net sales by geographical area were as follows:

	First half	
(€ million)	**2017**	**2018**
Italy	204	158
Rest of Europe	231	219
CIS	557	441
Middle East	1,535	1,270
Far East	315	158
North Africa	548	598
West Africa and Rest of Africa	887	728
Americas	313	226
Total	**4,590**	**3,798**

Contract revenues include the amount agreed in the initial contract, plus revenues from change orders and claims.

The variants (change orders) consist of additional fees deriving from changes to the contractually agreed works requested by the client; price revisions (claims) consist of requests for additional fees deriving from higher charges incurred for reasons attributable to the client. Change orders and claims are included in the amount of revenues when the change to the agreed works and/or price have been approved, even if their definition has still not been agreed on and in any case no greater than a total amount of €30 million.
The cumulative amount of additional payments for change orders and claims, including amounts pertaining to previous years, based on project progress at June 30, 2018, totalled €471 million, of which 77% are disputed. The evaluation of projects with additional fees in the presence of ongoing legal disputes are carried out up to the costs incurred, provided they are supported by the technical-legal opinions of external consultants. Revenues from related parties are shown in Note 49 'Transactions with related parties'.

37 Other income and revenues

Other income and revenues were as follows:

	First half	
(€ million)	2017	2018
Gains on disposal of assets	2	-
Indemnities	-	1
Other income	3	5
Total	**5**	**6**

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'.

38 Purchases, services and other costs

Purchases, services and other costs included the following:

	First half	
(€ million)	2017	2018
Production costs - raw, ancillary and consumable materials and goods	1,136	672
Production costs - services	1,732	1,678
Operating leases and other	374	270
Net provisions for contingencies	(9)	(8)
Other expenses	27	39
less:		
- capitalised direct costs associated with self-constructed assets	(5)	(4)
- changes in inventories of raw, ancillary and consumable materials and goods	21	14
Total	**3,276**	**2,661**

Provisions for contingencies are detailed in Note 24 'Provisions for contingencies'.
Purchase services and other costs to related parties are shown in Note 49 'Transactions with related parties'.

39 Net reversals (impairments) of trade and other receivables

During the first half of 2018, net reversals (impairments) of trade receivables and other receivables amounted to €3 million (€8 million in the first half of 2017).

40 Payroll and related costs

Payroll and related costs were as follows:

	First half	
(€ million)	2017	2018
Payroll and related costs	856	741
less:		
- capitalised direct costs associated with self-constructed assets	(2)	(3)
Total	**854**	**738**

Payroll costs include use of provisions for redundancy incentives which amounted to €12 million, as commented on Note 24 'Provisions for contingencies'.

Stock-based compensation plans for Saipem senior managers

In order to create a system of incentives and loyalty among Group's senior managers, Saipem SpA, beginning in 2016, defined a Stock Grant Plan which was implemented in three-years cycles.
The cost is determined with reference to the fair value of the option assigned to the senior manager, while the portion for the year is determined pro-rata temporis throughout the period to which the incentive refers (the vesting period and the co-investment period).
The fair value of the stock grants for the year, referring to both completed allocations, respectively in 2016 and in 2017, amounted to €6 million at June 30, 2018.
At the date of assignment, the classification and the number of beneficiaries, the respective number of shares allocated and the subsequent fair value calculation are analysed as follows:

Implementation for 2016

	No. of managers	No. of shares	Share portion (%)	Unit fair value TSR (weight 50%)	Unit fair value PFN (weight 50%)	Weighted average unit fair value	Total fair value	Fair value at June 30, 2017 (1)	Fair value at June 30, 2018 (1)
Strategic senior managers (vesting period)	99	3,407,815	75	1.20	4.26	3.400	11,586,558	1,606,316	1,471,842
Strategic senior managers (co-investment period)			25	2.20	8.52				
Non-strategic senior managers	272	2,330,350	100	1.20	4.26	2.750	6,408,463	1,052,861	1,008,128
CEO	1	365,349	100	1.20	4.26	2.750	1,004,709	167,452	167,452
Total	**372**	**6,103,514**				**3.111**	**18,999,730**	**2,826,629**	**2,647,422**

(1) Fair value at June 30, 2017 and at June 30, 2018 is shown net of the rights expired/allocated on that date.

Implementation for 2017

	No. of managers	No. of shares	Share portion (%)	Unit fair value TSR (weight 50%)	Unit fair value PFN (weight 50%)	Weighted average unit fair value	Total fair value	Fair value at June 30, 2017 (1)	Fair value at June 30, 2018 (1)
Strategic senior managers (vesting period)	100	3,926,500	75	1.91	3.42	2.665	13,163,589	-	1,747,376
Strategic senior managers (co-investment period)			25	3.99	6.84				
Non-strategic senior managers	244	2,418,400	100	1.91	3.42	3.353	6,445,036	-	1,055,238
CEO	1	397,500	100	1.91	3.42	3.353	1,059,338	-	176,395
Total	**345**	**6,742,400**				**3.0653**	**20,667,963**	**-**	**2,979,009**

(1) Fair value at June 30, 2017 and at June 30, 2018 is shown net of the rights expired/allocated on that date.

The evolution of the share plan is as follows:

	2017			2018		
(€ thousand)	Number of shares	Average strike price (a)	Market price (b)	Number of shares	Average strike price (a)	Market price (b)
Options outstanding as of the beginning of the period	**6,095,214**	**-**	**32,914**	**12,637,514**	**-**	**48,149**
New options granted	6,742,400	-	23,059	-	-	-
(Options exercised during the period - consensual termination) (c)	(4,275)	-	(14)	(124,239)	-	(429)
(Options expiring during period)	(195,825)	-	(745)	(357,786)	-	(1,248)
Options outstanding as of June 30, 2018	**12,637,514**	**-**	**48,149**	**12,155,489**	**-**	**47,941**
Of which:						
- exercisable at June 30, 2018	-	-	-	-	-	-
- exercisable at the end of the vesting period	10,638,973	-	-	10,451,716	-	-
- exercisable at the end of the co-investment period	1,998,541	-	-	1,703,773	-	-

(a) Since these are stock grants, the strike price is zero.
(b) The market price of shares underlying options granted, exercised or expiring during the year corresponds to the average market value. The market price of shares underlying the stock grants outstanding at the beginning and end of the year is the price recorded at January 1 and December 31 for 2017 and at January 1 and June 30 for 2018.
(c) The share plan envisages, inter alia, that in cases of consensual termination of the employment relationship, the beneficiary retains the right to the incentive to a reduced extent, in relation to the period elapsed between the allocation of shares and the occurrence of such event. (Article 4.8 of the plan regulations).

The 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	
(number)	2017	2018
Senior managers	387	383
Junior managers	4,063	3,977
White collars	15,878	14,814
Blue collars	14,734	12,459
Seamen	283	268
Total	**35,345**	**31,901**

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.

41 Depreciation, amortisation and impairment

Depreciation, amortisation and impairment are detailed below:

	First half	
(€ million)	2017	2018
Depreciation and amortisation:		
- tangible assets	260	224
- intangible assets	4	4
Total depreciation and amortisation	**264**	**228**
Impairment:		
- tangible assets	85	196
- intangible assets	-	60
Total impairment	**85**	**256**
Total	**349**	**484**

42 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 (expense)'. At June 30, 2018 these amounted to €2 million.

43 Finance income (expense)

Finance income (expense) was as follows:

	First half	
(€ million)	2017	2018
Finance income (expense)		
Finance income	129	127
Finance expense	(316)	(152)
Total	**(187)**	**(25)**
Derivative financial instruments	72	(55)
Total	**(115)**	**(80)**

Net finance income and expense was as follows:

(€ million)	First half 2017	2018
Exchange gains (losses)	**(138)**	**20**
Exchange gains	124	123
Exchange losses	(262)	(103)
Finance income (expense) related to net borrowings	**(48)**	**(43)**
Interest from banks and other financial institutions	4	3
Interest and other expense due to banks and other financial institutions	(52)	(46)
Other finance income (expense)	**(1)**	**(2)**
Other finance income from third parties	1	1
Other finance expense	(1)	(2)
Finance income (expense) on defined benefit plans	(1)	(1)
Total finance income (expense)	**(187)**	**(25)**

Gains (losses) on derivatives consisted of the following:

(€ million)	First half 2017	2018
Exchange rate derivatives	73	(55)
Interest rate derivatives	(1)	-
Total	**72**	**(55)**

Net expenses from derivatives of €55 million (income of €72 million in the first half of 2017) mainly related to the recognition in income of the change in fair value of derivatives that do not qualify for hedge accounting under the IFRS and the recognition of the forward component of derivatives that qualify for hedge accounting.
Finance income (expense) with related parties are shown in Note 49 'Transactions with related parties'.

44 Income (expense) from investments

Effect of accounting using the equity method

The share of profit (loss) of investments accounted for using the equity method consisted of the following:

(€ million)	First half 2017	2018
Share of profit of investments accounted for using the equity method	10	8
Share of loss of investments accounted for using the equity method	(8)	(27)
Net additions to (deductions from) the provisions for losses related to investments accounted for using the equity method	-	(30)
Total	**2**	**(49)**

The share of profits (losses) of investments accounted for using the equity method is commented on Note 15 'Investments'.

Other income (expense) from investments

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

45 Income taxes

Income taxes consisted of the following:

(€ million)	First half 2017	First half 2018
Current taxes:		
- Italian subsidiaries	91	6
- foreign subsidiaries	81	85
Net deferred taxes:		
- Italian subsidiaries	(17)	19
- foreign subsidiaries	(45)	(15)
Total	**110**	**95**

(€ million)	First half 2017	First half 2018
Income taxes recognised in consolidated income statement	110	95
Income tax related to items of other comprehensive income that may be reclassified to profit or loss	51	(13)
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	-	-
Tax on total comprehensive income	**161**	**82**

46 Non-controlling interests

Profit attributable to non-controlling interests amounted to €25 million (€11 million in the first half of 2017).

47 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.
Reconciliation of the average number of shares used for the calculation of basic and diluted earnings per share is as follows:

		June 30, 2017	June 30, 2018
Weighted average number of shares used for the calculation of the basic earnings (losses) per share		**1,003,860,693**	**996,129,397**
Number of potential shares following stock option plans		6,095,210	12,155,489
Number of savings shares convertible into ordinary shares		10,612	10,598
Weighted average number of outstanding shares for diluted earnings (losses) per share		**1,009,966,515**	**1,008,295,484**
Earnings (losses) attributable to Saipem	(€ million)	(110)	(323)
Basic earnings (losses) per share	(€ per share)	(0.11)	(0.32)
Diluted earnings (losses) per share	(€ per share)	(0.11)	(0.32)

48 Segment and geographical information

Segment information

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Not allocated	Total
First half 2017						
Net sales from operations	2,595	2,383	514	305	-	5,797
less: intra-group sales	(575)	(383)	(191)	(58)	-	(1,207)
Net sales to customers	**2,020**	**2,000**	**323**	**247**	**-**	**4,590**
Operating result	172	(53)	20	(15)	-	124
Amortisation and impairment	88	70	124	67	-	349
Net income (expense) from investments	9	(7)	-	-	-	2
Capital expenditure	41	2	63	41	-	147
Tangible and intangible assets	2,657	559	1,664	775	-	5,655
Investments [(a)]	130	12	-	6	-	148
Current assets	1,855	2,499	288	291	2,330	7,263
Current liabilities	1,872	2,312	133	135	663	5,115
Provisions for contingencies [(a)]	114	105	4	2	42	267
First half 2018						
Net sales from operations	2,356	1,823	389	292	-	4,860
less: intra-group sales	(606)	(242)	(168)	(46)	-	1,062
Net sales to customers	**1,750**	**1,581**	**221**	**246**	**-**	**3,798**
Operating result	153	(89)	(145)	7	-	(74)
Amortisation and impairment	99	79	249	57	-	484
Net income (expense) from investments	(47)	(2)	-	-	-	(49)
Capital expenditure	262	8	25	18	-	313
Tangible and intangible assets	2,702	526	1,334	612	-	5,174
Investments [(a)]	114	(26)	-	3	-	91
Current assets	1,793	1,999	255	284	2,178	6,509
Current liabilities	1,614	2,220	83	119	436	4,472
Provisions for contingencies [(a)]	(83)	(126)	(2)	(5)	(98)	(314)

(a) See the section 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page. 72.

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 36 'Net sales from operations'.

(€ million)	Italy	Rest of Europe	CIS	Rest of Asia	North Africa	West Africa	Americas	Unallocated	Total
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
First half 2018									
Capital expenditure	10	2	6	12	-	-	3	280	313
Tangible and intangible assets	93	30	106	590	1	42	266	4,046	5,174
Identifiable assets (current)	1,183	320	394	1,934	642	762	556	718	6,509

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); and (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'.

49 Transactions with related parties

On January 22, 2016, following the entry into force of the transfer of 12.5% of Saipem SpA's share capital from Eni to CDP Equity SpA (former Fondo Strategico Italiano), Eni no longer has sole control over Saipem SpA, which has been replaced by the joint control exercised by Eni and CDP Equity SpA, with a resulting variation in the perimeter of related parties. Transactions with related parties entered into by Saipem SpA and/or companies within the scope of consolidation concern mainly the supply of services, the exchange of goods with joint ventures, associates and unconsolidated subsidiaries, with subsidiaries, jointly-controlled entities and associates of Eni SpA, with several jointly-controlled entities and associates of CDP Equity SpA, and with entities owned controlled by the Italian State, in particular companies of the Snam Group. These transactions are an integral part of ordinary day-to-day business and are carried out under market conditions which would be applied between independent parties. All transactions were carried out for the mutual benefit of the Saipem companies involved.
Pursuant to disclosure requirements covered under Consob Regulation No. 17221 of March 12, 2010, the following transaction with related parties was carried out in the first half of 2018:

- on June 6, 2018, a contract was signed for the executive planning and construction of the Brescia-Verona Linea AV/AC Milano-Verona railway line ('Secondo Atto Integrativo') (hereinafter 'the Contract') between Rete Ferroviaria Italiana SpA ('RFI'), Consorzio CEPAV Due (formed by Saipem SpA, Impresa Pizzarotti & C and Gruppo ICM SpA), Saipem SpA, Impresa Pizzarotti & C, Gruppo ICM SpA and Eni SpA. The Contract was awarded to the Consorzio CEPAV Due by direct negotiations in the context of the Agreement signed by RFI, Eni and the CEPAV Due Consortium on October 15, 1991. Within the scope of the Contract, Eni holds the role of guarantor of the CEPAV Due obligations in accordance with the provisions of the aforementioned agreement. The contract encompasses the design and construction of the high-speed railway line Brescia-Verona with a capacity of about 48 km and related infrastructures and interconnections; the works are divided into two Constructive Lots and will last for 82 months. The contract price is €1,645.80 million for the First Construction Lot (LC1). The entire value of the section is equal to €2,160 million;
- the transaction with Vodafone Italia SpA, which, pursuant to the provisions of Consob's Regulation concerning transactions with related parties of March 12, 2010 and Saipem's internal procedure 'Interests held by Board Directors and Statutory Auditors and transactions with related parties', is related to Eni SpA through a member of the Board of Directors. The transaction in question was carried out on an arm's length basis and essentially related to costs for mobile communication services amounting to €1 million.

The tables below show the value of transactions of a trade, financial or other nature entered into with related parties. The analysis by company is based on the principle of relevance in relation to the total amount of transactions. Transactions not itemised because they are immaterial are aggregated under the following captions:

- unconsolidated subsidiaries;
- joint ventures and associates;
- companies controlled by Eni and CDP Equity SpA;
- Eni and CDP Equity SpA associated and jointly-controlled companies;
- companies controlled by the State and other related parties.

Trade and other transactions

Trade and other transactions consisted of the following:

(€ million)

Name	June 30, 2017			First half 2017			
				Expenses		Revenues	
	Trade and other receivables	Trade and other payables and contract liabilities	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**	**-**	**-**
Joint ventures and associates							
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 joint ventures and associates	**140**	**46**	**261**	**-**	**12**	**62**	**-**
Companies controlled by Eni and CDP Equity SpA							
Eni SpA	1	-	1,673	-	-	(1)	-
Eni SpA Divisione Exploration & Production	16	-	1	-	-	33	-
Eni SpA Divisione Gas & Power	1	1	-	-	1	-	-
Eni SpA Divisione Refining & Marketing	-	-	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**	**-**

Trade and other transactions continue below:

(€ million)

	June 30, 2017			First half 2017			
				Expenses		Revenues	
Name	Trade and other receivables	Trade and other payables and contract liabilities	Guarantees	Goods	Services (1)	Goods and services	Other
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							
Mozambique Rovuma Venture SpA (former 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'.

Trade and other transactions as of June 30, 2018 consisted of the following:

(€ million)

	June 30, 2018			First half 2018			
				Expenses		Revenues	
Name	Trade and other receivables	Trade and other payables and contract liabilities	Guarantees	Goods	Services (1)	Goods and services	Other
Unconsolidated subsidiaries							
SAGIO - Companhia Angolana de Gestão de Instalaçao Offshore Lda	-	-	-	-	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
Total unconsolidated subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Joint ventures and associates							
ASG Scarl	-	2	-	-	-	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	9	16	144	-	9	35	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	3	6	119	-	-	-	-
Gruppo Rosetti Marino SpA	-	-	-	-	-	-	-
KWANDA Suporte Logistico Lda	45	8	-	-	-	3	-
Petromar Lda	18	2	-	-	1	4	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	10	9	-	-	-	-	-
Southern Gas Constructors Ltd	-	-	-	-	-	-	-
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	1	-	-	-	-	-	-
TMBYS SAS	-	-	-	-	-	-	-
TSGI Mühendislik İnşaat Ltd Şirketi	13	-	-	-	-	6	-
Xodus Subsea Ltd	3	2	-	-	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	1	-	-
Total joint ventures and associates	**102**	**45**	**263**	**-**	**11**	**48**	**-**

Trade and other transactions continue below:

(€ million)

	June 30, 2018			First half 2018			
				Expenses		Revenues	
Name	Trade and other receivables	Trade and other payables and contract liabilities	Guarantees	Goods	Services (1)	Goods and services	Other
Total joint ventures and associates	**102**	**45**	**263**	**-**	**11**	**48**	**-**
Companies controlled by Eni and CDP Equity SpA							
Eni SpA	1	-	903	-	-	3	-
Eni SpA Divisione Exploration & Production	16	-	-	-	1	32	-
Eni SpA Divisione Gas & Power	1	1	-	-	-	-	-
Eni SpA Divisione Refining & Marketing	2	-	11	-	-	3	-
Agip Kazakhstan North Caspian	-	-	-	-	-	-	-
Agip Oil Ecuador BV	1	-	-	-	-	-	-
Eni Adfin SpA	-	-	-	-	-	-	-
Eni Angola SpA	28	-	59	-	-	85	-
Eni Congo SA	31	9	4	-	-	24	-
Eni Cyprus Ltd	-	-	-	-	-	12	-
Eni East Sepinggan Ltd	-	-	-	-	-	-	-
Eni Ghana E&P	13	-	5	-	-	24	-
Eni Insurance Ltd	-	-	-	-	-	-	-
Eni Lasmo PLC	-	-	-	-	-	-	-
Eni Maroc BV	12	-	-	-	-	13	-
Eni Muara Bakau BV	-	-	17	-	-	4	-
Eni Norge AS	-	-	-	-	-	-	-
Eni Portugal BV	2	-	-	-	-	-	-
Eni Vietnam BV	6	-	-	-	-	6	-
EniServizi SpA	-	1	-	-	15	-	-
First Calgary Petroleum LP	-	-	100	-	-	-	-
Ieoc Exploration BV	-	-	1	-	-	-	-
Naoc - Nigerian Agip Oil Co Ltd	31	-	-	-	4	2	-
Serfactoring SpA	-	1	-	-	-	-	-
Syndial SpA	-	-	-	-	-	-	-
Tecnomare SpA	2	-	-	-	-	2	-
Versalis SpA	4	-	26	-	-	7	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	1	-
Total companies controlled by Eni and CDP Equity SpA	**150**	**12**	**1,126**	**-**	**20**	**218**	**-**
Eni and CDP Equity SpA associated and jointly-controlled companies							
Mozambique Rovuma Venture SpA (former Eni East Africa SpA)	-	-	-	-	-	-	-
Greenstream BV	1	-	-	-	-	1	-
InAgip doo	-	-	-	-	-	-	-
Mellitah Oil&Gas BV	-	-	30	-	-	-	-
Petrobel Belayim Petroleum Co	467	73	318	-	-	736	-
PetroJunìn SA	-	-	2	-	-	-	-
Raffineria di Milazzo	1	-	-	-	-	1	-
Others (for transactions not exceeding €500 thousand)	-	-	1	-	-	1	-
Total Eni and CDP Equity SpA associated and jointly-controlled companies	**469**	**73**	**351**	**-**	**-**	**739**	**-**
Total Eni and CDP Equity SpA companies	**619**	**85**	**1,477**	**-**	**20**	**957**	**-**
Companies controlled or owned by the State	**17**	**-**	**67**	**-**	**-**	**13**	**-**
Total transactions with related parties	**738**	**130**	**1,807**	**-**	**31**	**1,018**	**-**
Overall total	**2,502**	**3,904**	**5,565**	**672**	**1,987**	**3,798**	**6**
Incidence (%)	**29.58**	**3.33**	**32.47**	**-**	**1.56**	**26.80**	**-**

(1) The item 'Services' includes costs for services, costs for the use of third party assets and other charges and the write-backs (net write-downs) of trade receivables and other receivables.

The figures shown in the tables refer to Note 8 'Trade and other receivables', Note 19 'Trade and other payables and contract liabilities', Note 35 'Guarantees, commitments and risks', Note 36 'Net sales from operations', Note 37 'Other income and revenues' and Note 38 '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, 2017		June 30, 2018	
(€ million)	Other assets	Other current liabilities	Other assets	Other current liabilities
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	1	-	1	-
Eni SpA	1	5	-	-
Total transactions with related parties	**2**	**5**	**1**	**-**
Overall total	**287**	**25**	**192**	**142**
Incidence (%)	**0.70**	**20.00**	**0.52**	**-**

Financial transactions

Financial transactions were as follows:

(€ million)

	Dec. 31, 2017				First half 2017		
Name	Cash and cash equivalents	Receivables [1]	Payables	Commitments	Expenses	Income	Derivative financial instruments
Serfactoring SpA	-	2	-	-	-	-	-
Total transactions with related parties	**-**	**2**	**-**	**-**	**-**	**-**	**-**

(1) Shown on the balance sheet under 'Trade and other receivables' (€2 million).

Financial transactions as of June 30, 2018 were as follows:

(€ million)

	June 30, 2018				First half 2018		
Name	Cash and cash equivalents	Receivables [1]	Payables	Commitments	Expenses	Income	Derivative financial instruments
Serfactoring SpA	-	2	-	-	-	-	-
Total transactions with related parties	**-**	**2**	**-**	**-**	**-**	**-**	**-**

(1) Shown on the balance sheet under 'Trade and other receivables' (€2 million).

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

	Dec. 31, 2017			June 30, 2018		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Short-term debt	120	-	-	73	-	-
Long-term debt (including current portion)	2,998	-	-	2,977	-	-
Total	**3,118**	**-**	**-**	**3,050**	**-**	**-**

	First half 2017			First half 2018		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Finance income	129	-	-	127	-	-
Finance expense	(316)	-	-	(152)	-	-
Derivative financial instruments	72	-	-	(55)	-	-
Other operating income (expense)	-	-	-	2	-	-
Total	**(115)**	**-**	**-**	**(78)**	**-**	**-**

The main cash flows with related parties were as follows:

(€ million)	June 30, 2017	June 30, 2018
Revenues and other income	1,042	1,018
Costs and other expenses	(33)	(31)
Finance income (expenses) and derivatives	-	-
Change in trade receivables and payables	(80)	(454)
Net cash provided by operating activities	**929**	**533**
Change in financial receivables	-	-
Net cash flow from investments	**-**	**-**
Change in financial payables	-	-
Net cash from financing activities	**-**	**-**
Total cash flows with related parties	**929**	**533**

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

	June 30, 2017			June 30, 2018		
(€ million)	Total	Related parties	Incidence (%)	Total	Related parties	Incidence (%)
Cash provided by operating activities	63	929	1,474.60	288	533	185.07
Cash used in investing activities	(147)	-	-	(313)	-	-
Cash flow from financing activities (*)	38	-	-	(71)	-	-

(*) 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, 2018:

(€ million)	June 30, 2017	June 30, 2018
Net capital employed	(55)	(55)
Total assets	61	57
Total current assets	61	57
Total non-current assets	-	-
Total liabilities	61	57
Total current liabilities	61	57
Total non-current liabilities	-	-
Total revenues	4	-
Total operating expenses	(4)	-
Operating profit	-	-
Net profit (loss) for the period	-	-

50 Significant non-recurring events and operations

No significant non-recurring events or operations took place in the first half of 2018 or in the first half of 2017.

51 Transactions deriving from atypical or unusual transactions

No transactions deriving from atypical and/or unusual operations occurred in the first half of 2017 or the first half of 2018.

52 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'.

53 Additional information: Algeria

Further to the disclosures provided in the Algeria paragraph of the 'Legal proceedings' section, we note the following additional information with regard to projects under completed in Algeria as at June 30, 2018:
- funds in two current accounts (ref. Note 6) amounting to the equivalent of €70 million are currently frozen (€70 million at December 31, 2017);
- trade receivables (ref. Note 8) amounted to €0 million (€7 million at December 31, 2017);
- the other provisions for risks and expenses (ref. Note 24) amounted to €17 million (€22 million at December 31, 2017), mainly for future expenses;
- other debt (ref. Note 19) amounted to €0 million (€131 million at December 31, 2017);
- guarantees (ref. Note 35) on projects completed totalled €130 million (€347 million at December 31, 2017).

54 Additional information: Consob Resolution No. 20324

On March 5, 2018, the Company released the following press release with which it acknowledged Resolution No. 20324 taken by the Consob Commission on March 2, 2018.
With reference to said resolution and at the beginning of the processes aimed at adopting the measure pursuant to Article 154-*ter*, paragraph 7 of Legislative Decree No. 58/1998 please refer to the specific section.

INFORMATION REGARDING CENSURE BY CONSOB PURSUANT TO ARTICLE 154-*TER*, SUBSECTION 7, OF LEGISLATIVE DECREE NO. 58/1998 AND THE NOTICE FROM THE CONSOB OFFICES DATED APRIL 6, 2018

On January 30, 2018, Consob, having concluded its inspection commenced on November 7, 2016 (which ended on October 23, 2017) and of which Saipem gave information in the Annual Report 2016, has informed Saipem that it has detected non compliances in 'the Annual Report 2016, as well as in the Interim Consolidated Report as of June, 30 2017' with the applicable international accounting principles (IAS 1 'Presentation of Financial Statements'; IAS 34 'Interim Financial Reporting'; IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', par. 5, 41 and 42; IAS 36 'Impairment of Assets', par. 31, 55-57) and, consequently, has informed Saipem about the commencement 'of proceedings for the adoption of measures pursuant to Article154-*ter*, subsection 7, of Italian Legislative Decree No. 58/1998'.
With notes of February 13 and 15, 2018, the Company transmitted to Consob its own considerations in relation to the remarks formulated by the offices of Consob, highlighting the reasons for which it does not share such remarks.
On March 2, 2018, the Commission of Consob, partially accepting the remarks of the offices of Consob, informed Saipem of its own Resolution No. 20324 (the 'Resolution'), with which it ascertained the 'non conformity of the Saipem's Annual Report 2016 with the regulations governing their predisposition', without censuring the correctness of the Interim Consolidated Report as of June 30, 2017.
According to the Resolution, the non-conformity of the Saipem's Annual Report 2016 with the regulations which govern its predisposition, concerns in particular: (i) the incorrect application of the accounting principle of the accrual basis of accounting affirmed by the accounting principles IAS 1; (ii) the failed application of the accounting principle IAS 8 in relation to the correction of errors with reference to the financial statements of 2015; and (iii) the estimation process of the discount rate pursuant to the accounting principles IAS 36.
Consob has therefore asked the Company, pursuant to Article 154-*ter*, subsection 7, of Legislative Decree No. 58 of 1998, to disclose the following elements of information to the markets:
(A) the shortcomings and criticalities revealed by Consob in relation to the accounting correctness of the financial statements mentioned above;
(B) the applicable international accounting standards and the violations detected in relation thereto;
(C) the illustration, in an appropriate pro forma consolidated income statements and balance sheet – with comparative data – of the effects that accounting in compliance with the regulations would have produced on 2016 balance sheet, income statement and shareholders' equity, for which incorrect information was supplied.

A. Shortcomings and criticalities revealed by Consob regarding the correctness of accounting in the consolidated and statutory financial statements of 2016.
The shortcomings and criticalities encountered by Consob with regard to the 2016 consolidated and statutory financial statements can be substantially attributed to the following two items:
(a) non-compliance of the '2016 consolidated and statutory Saipem SpA financial statements with reference to the comparative data for the financial year 2015';
(b) non-compliance of the process of estimation of the discount rate underpinning the 2016 impairment test with accounting principle IAS 36 which requires that the Company must 'apply the appropriate discount rate to [...] future cash flows'.
With regard to point (a), the contestation concerns the non-compliance of the 2016 consolidated and statutory financial statements with:
(i) IAS 1, par. 27, according to which 'an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting' and par. 28, according to which 'when the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework'; and
(ii) IAS 8, par. 41, according to which '[...], material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period' and par. 42 according to which 'the entity must correct the material errors for the previous financial years retroactively in the first financial statements authorised for publication after their discovery as follows: (a) by newly determining the comparative figures for the financial year/years prior to the one in which the error was committed [...]'.
In substance, in Consob's opinion, the circumstances at the basis of some of the write-downs recognised in the 2016 financial statements already existed, wholly or in part, when preparing 2015 financial statements. Indeed, Consob alleges that the Company approved 2016 consolidated and statutory financial statements without having corrected the 'material errors' contained in the consolidated and statutory financial statements of the previous administrative period, in relation to the following items:
- 'property, plant and equipment';
- 'inventories';
- 'tax assets'.
With regard to point sub (b), Consob alleges that the Company, for the purposes of the impairment test: (i) used a sole rate to actualise business unit cash flows, characterised by a different risk profile; (ii) did not consider the country risk in relation to some assets operating in specific geographical areas over a long period of time; (iii) did not take into account the significant changes in Company risk profile subsequent to the transaction that determined the deconsolidation of Saipem from the Eni Group.

B. The applicable accounting standards and the violations encountered in relation thereto.
Consob holds that the 2016 consolidated and statutory financial statements of Saipem at December 31, 2016, were not compliant with the following accounting principles: IAS 1, IAS 8 and IAS 36.

Specifically, Consob has observed that the Company approved 2016 consolidated and statutory financial statements of 2016 without having corrected the 'material errors' contained in the consolidated and statutory financial statements of the previous period, in relation to the following items:
- 'property, plant and equipment';
- 'inventories';
- 'tax assets'.

With reference to the item 'properties, plants and equipment' for 2015, Consob alleges the incorrect application of IAS 16 Accounting Principle 'properties, plants and equipment' and of IAS 36.
Specifically, Consob alleges that some write offs carried out by the Company on 'properties, plants and equipment' in the 2016 consolidated financial statements 2016 should have been accounted for, at least in part, in the previous financial year.
In particular Consob alleges:
(i) the non-correct application of IAS 36 with reference to the impairment test relating to the evaluation of some assets registered as 'properties, plants and equipment' of the Offshore Drilling business unit and with respect to the assets registered in the Offshore and Onshore Engineering & Construction business units. Consob's remarks refers to the methods of cash flow estimation expected from the use of said assets for the purposes of the application of the impairment test with respect to the financial year 2015 and specifically to the incorrect application of IAS 36: (a) par. 33, lett. a), according to which 'in measuring value in use an entity shall: a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence'; (b) par. 34 in the part that requires that management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate; (c) par. 35 in the part that refers to the approach to be followed when use is made of cash flow projections for a period of over five years, highlighting that said approach is allowed 'if [the entity] is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period';
(ii) the non correct application of IAS 16, paragraphs 51, 56 and 57 with reference to useful residual life of some assets registered as 'properties, plants and equipment' of the Onshore Drilling business unit, of the Offshore Engineering & Construction business unit and of the Onshore Engineering & Construction business unit. Consob's remarks concern the circumstances that the review of the estimation of the useful residual life of assets cited (reported in the 2016 financial statements) should have already been done in the financial year 2015. Specifically, Consob alleges that IAS 16: (a) par. 51 was not correctly applied in the part that requests that 'the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; (b) par. 56 in the part that requires that 'the future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset'; par. 57 in the part that requires that 'the useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets'.

As a consequence of the above mentioned remarks, Consob likewise does not share the economic competence of the write off included in the 2016 consolidated and statutory financial statements with reference to some inventories and to a positive deferred tax asset related to the items criticised by Consob for which the economic competence of the write off according to Consob should have been accounted for in the 2015 financial year.
Consob notes in this regard:
(i) IAS 2, par. 9, that 'inventories shall be measured at the lower of cost and net realisable value' and at par. 30 that 'estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise';
(ii) IAS 12 in the part that requires at par. 34 that 'a deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised' and that 'to the extent that it is not probable that taxable profit will be available against which unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised'.

Furthermore, Consob criticises the process of estimating the discount rate at the base of the impairment test for the financial year 2016 in so far as it is characterised by an approach that is not compliant with accounting principle, IAS 36 which requires that the Company 'must apply the discount rate appropriate to the future financial cash flows' More precisely, with respect to the financial year 2016 Consob does not share the fact that the Company, with reference to the execution of the impairment test: (i) has used a single rate to discount cash flows of different business units which are characterised by different risk profiles; (ii) has not considered the country risk in relation to some assets operating in specific geographical areas over a long period of time.
In relation to the above, Consob also alleges the violation of the principle of correct representation of the company's situation which would not guarantee the observance of fundamental assumptions and qualitative characteristics of information.
Consob believes, in fact, that the importance of the errors and the significance of the shortcomings can likewise determine the non-compliance of the aforementioned financial statements with the requirements of reliability, prudence and completeness, pursuant to principle IAS 1.

C. Illustration, in an appropriate pro-forma consolidated asset and financial situation – supported by comparative data – of the effects of accounting in compliance with the regulations would have produced on 2016 the company's financial condition, on the income statement and in the net equity of the financial year 2016, for which incorrect information was supplied.
While not sharing the judgement of non-compliance of the 2016 consolidated and statutory financial statements put forward by Consob in its Resolution, Saipem points out that the 2016 consolidated and statutory financial statements of the Company were approved by the Board of Directors on March 16, 2017 and by the Shareholders' Meeting on April 28, 2017 and were subject to audit pursuant to Legislative Decree No. 39 of January 27, 2010 and the report was issued on April 3, 2017.
In addition, with the press release of March 6, 2018, Saipem reported that 'the Board of Directors of Saipem, in disagreement with the Resolution of Consob, resolved on March 5, 2018 to appeal the Resolution in the competent courts'.
In the press release dated March 21, 2018 Saipem reported that for the purposes of ensuring a correct interpretation, and in order to implement the findings of the Resolution, today the Company has filed a petition with Consob in order to obtain interpretative clarifications suitable for overcoming the technical and evaluation complexities related to the findings of the Authority and to be able, in this way, to inform the market correctly, reaffirming that it does not share – and has no intention of accepting – the judgement of non-compliance of the consolidated and statutory financial statements as at December 31, 2016.

On December 16, 2018, Saipem issued a press release regarding the pro forma consolidated income statements and balance sheet as at December 31, 2016 for the sole purpose of complying with the Resolution.
On April 6, 2018, after the closure of the market, the Offices of the Italian securities market regulator Consob (Divisione Informazione Emittenti - Issuer Information Division) announced with their communication No. 0100385/18 (the 'Communication'), that they started an administrative sanctioning procedure, claiming some violations pursuant to Articles 191 and 195 of Italian Legislative Decree No. 58/1998 (the 'Financial Law'), relating to the offer documentation (Informative Prospectus and Supplement to the Informative Prospectus) made available to the public by Saipem on the occasion of its capital increase operation, which took place in January and February 2016. The alleged violations were exclusively addressed to the members of the Board of Directors and the Chief Financial Officer/Officer Responsible for Financial Reporting in office at that time.
The Offices of Consob, in communicating their allegations to the interested parties also pointed out that, if the alleged violations were ascertained by the Commission of Consob at the outcome of the procedure, said violations *'would be punishable by an administrative fine between €5,000 and €500,000'*.
Saipem received notice of the communication solely as guarantor ex lege for the payment *'of any economic fines that may eventually be charged to the company executives at the outcome of the administrative procedure'*.
Saipem and all the company executives who have received the Communication, in reiterating their conviction as to the absolute correctness of their actions, will formulate exhaustive arguments in a timely manner to reply to the allegations of the Offices, and hereby trust that these arguments will be accepted by the Commission of Consob which will decide with respect to the aforementioned alleged violations in the sphere of an administrative procedure for which the term of conclusion *'is established in two hundred days starting from the thirtieth day after the date of completion of the last notification'* to the aforementioned company executives.
The allegations follow Consob Resolution No. 20324 of March 2, 2018 (the 'Resolution'), the content of which was communicated to the market by the Company with its press release of March 5, 2018. The resolution – with which, as also communicated to the market, the Company disagrees and that will be appealed in the appropriate legal venues – alleged, among other things, *'the incoherence of the assumptions and elements underlying the Strategic Plan for 2016-2019 with respect to the evidence at the disposal of the administrative bodies'*, as the indicators of possible impairment of value of the assets, later written down by Saipem in its nine-month interim report as of September 30, 2016 would already have existed, in the opinion of Consob, at the time of approval of the consolidated financial statements of 2015.
With its Communication, the Offices of Consob now charge the company executives who, at the time of the capital increase, performed management functions, with the violations that are the subject of the Resolution and have already been communicated to the market, as stated above. The Offices of Consob further claim certain *'elements relative to the inexact drafting of the declaration on the net working capital'* required by the standards in force on the subject of the framing of the informative prospectus.
The foregoing would imply, according to the Offices of Consob, *'the inability of the offer documentation to ensure that the investors would be able to formulate a well-grounded opinion about the equity and financial situation of the issuer, its economic results and prospects, pursuant to Article 94, sections 2 and 7, of the Financial Law, with regard to the information concerning: a) estimates of the Group's results for the fiscal year 2015 (Guidance 2015 and underlying assumptions)'; 'b) Group results forecast drawn from the Strategic Plan for 2016-2019 and underlying assumptions'; 'c) the declaration on the Net Working Capital'*.
Also according to the Offices of Consob, Saipem would have additionally omitted, in violation of Article 97, section 1 and Article 115, section 1, letter a), of the Financial Law, to report to Consob *'information pertaining to: (i) the assumptions underlying the declaration on its Net Working Capital; (ii) regarding the availability of an updated 'Eni Scenario' on the price of oil; and (iii) the existence of significant amendments to the assumptions underlying the Strategic Plan for 2016-2019'*. On July 4, 2018 Saipem, as guarantor ex lege for the payment '*of any economic fines that may eventually be charged to the company executives at the outcome of the administrative procedure*', submitted its defence to Consob.

CERTIFICATION PURSUANT TO RULE 154-*BIS*, PARAGRAPH 5 OF THE LEGISLATIVE DECREE NO. 58/1998 (TESTO UNICO DELLA FINANZA)

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, 2018 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, 2018 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, 2018:

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 2018 and their impact on condensed consolidated interim 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, 2018

/signed/ Stefano Cao
Stefano Cao
CEO

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

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Building a better working world

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 shareholder's equity, the cash flows statement and the related notes of Saipem S.p.A. and its subsidiaries (the "Saipem Group") as of 30 June 2018. 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, 2018 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, July 31st 2018

EY S.p.A.
Signed by: (Marco Di Giorgio), Partner

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

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Publications
Relazione finanziaria annuale (in Italian)
Annual Report (in English)

Interim Consolidated Report as of June 30
(in Italian and English)

Saipem Sustainability (in English)

Also available on Saipem's website:
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