ANNUAL REPORT
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.

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

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

CIS
Azerbaijan, Georgia, Kazakhstan, Russia, Turkmenistan

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

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

FAR EAST AND OCEANIA
Australia, China, India, Indonesia, Japan, Malaysia, Pakistan, Singapore, South Korea, Taiwan, Thailand, Vietnam

Board of Directors and auditors of Saipem SpA

BOARD OF 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[3], Pierfrancesco Latini[4], 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.
(3) Resigned on October 4, 2018.
(4) Appointed as Director by the Board of Directors on December 5, 2018.

Independent Auditors
EY SpA

ANNUAL REPORT 2018

Shareholders' Meeting of April 30, 2019
Notice of the Shareholders' Meeting was published on the Company website and an excerpt was published in the daily newspaper Il Sole 24 Ore on March 29, 2019.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

the transition to a new and more sustainable energy scenario is finally accelerating. After a long period of stagnation, infrastructure investments are gradually starting up again with a clear orientation towards sources and technologies whose distinctive character is based in greater environmental sustainability. Saipem is watching this evolution with prudent but motivated optimism: thanks to the process of transformation and relaunch begun in recent years, your company has further strengthened its base of skills, assets and technologies to meet the demand for sustainable energy.
Government policies, new technologies and consumption trends will have effects on production periods and methods and on energy use, so that it is difficult to predict. The changes taking place in the energy industry do require flexibility and a strong capacity for adaptation in a scenario where companies will not be able to avoid innovating and renewing themselves in the face of new challenges. In line with previous years, in order to face drastically changed market conditions, in 2018 our industry was affected by cost reduction programmes, organisational rationalisation, restructuring and extraordinary operations, aimed at operational efficiency and strategic diversification in order to face changing market conditions.

In 2018, your Company completed the process of organisational change, approved in July 2018 by the Board of Directors and pillar of the strategic relaunch, which is based on the re-focusing of the business portfolio, the de-risking and diversification of activities, debt reduction and financial discipline, costs and processes optimisation and an increasingly pronounced focus on technology and innovation.
The new organisation, characterised by the five Divisions, entails their full autonomy and provides the flexibility and operating levers needed to better adapt to the characteristics of the markets in which we operate, keeping, a unique and cross divisional view of the Company, at a Corporate level.

Specifically:
- the Offshore Engineering & Construction business remains our 'core business', where we consolidate and strengthen our leadership position through targeted investments and cooperation aimed at improving the integrated services offering, also in diversified sectors such as maintenance, modifications and operations, decommissioning and renewables;
- the Onshore Engineering & Construction business will continue to focus on completing the turnaround aimed at increasing profitability, also through measures such as de-risking on-going projects and repositioning the portfolio, with an ever-increasing focus on the energy transition;
- for the Onshore and Offshore Drilling businesses, efforts will continue to optimise operations and to expand the geographic and widen the client base.
  Possible strategic options are being assessed with a view to maximising value.

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

In 2018, the average Brent price stood at US$70 a barrel, substantially up from US$53 a barrel reached in 2017. However, during the year, oil prices were still characterised by extreme volatility. It is important to remember that in November 2018 Brent and WTI respectively dropped below US$60 and US$50 a barrel, losing over the period of one month roughly more than 30% of its value. Such extreme volatility, attributable not only to the supply and demand dynamics, but also to the persistence of geopolitical instability.
In recent years, oil companies have reacted to the volatility and fall of oil prices by, on the one hand, drastically reducing conventional upstream investments and, on the other hand, by implementing wide reaching restructuring and cost reductions. The have also increased investments in the natural gas industry and the downstream sector, in addition to a strong focus on US shale production.

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

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

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

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

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

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

In 2018, we continued the essential path to ensure the health and safety of our people, essence of our method of operating.
In particular, we are satisfied with our safety performance, which shows constant improvement year after year.
Statistics show the LTIFR-Lost Time Injury Frequency Rate at a value of 0.13, recording a further decrease of about 7% compared to 2017. However, sadly four fatal accidents occurred in which involved workers from four subcontractors' working on projects in Turkey, Kazakhstan and Saudi Arabia. In-depth investigations were carried out in line with our procedures and international best practices. The causes were identified and relevant improvement measures have been identified and implemented.

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

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

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

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

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

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

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

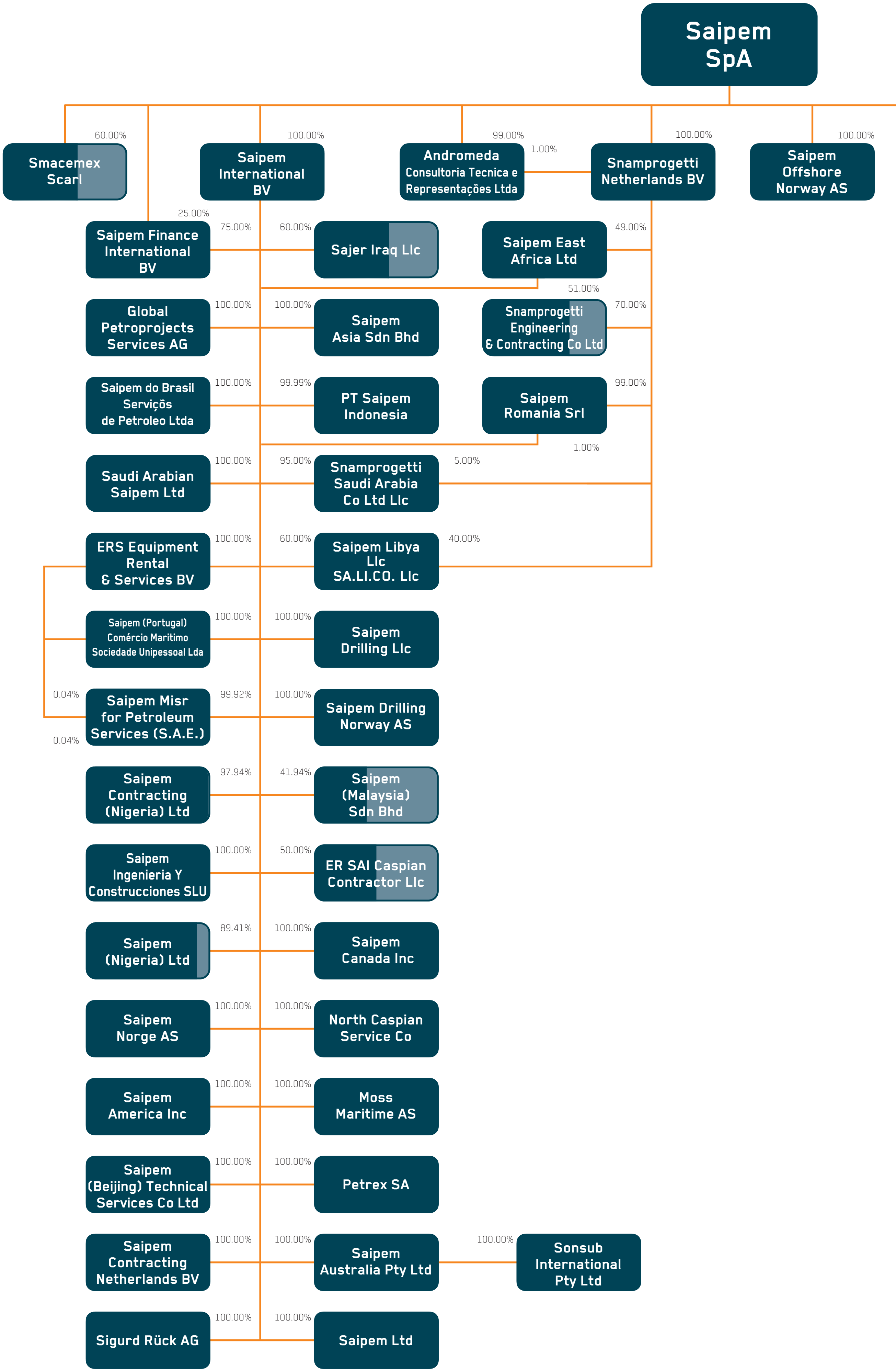
March 11, 2019

On behalf of the Board of Directors

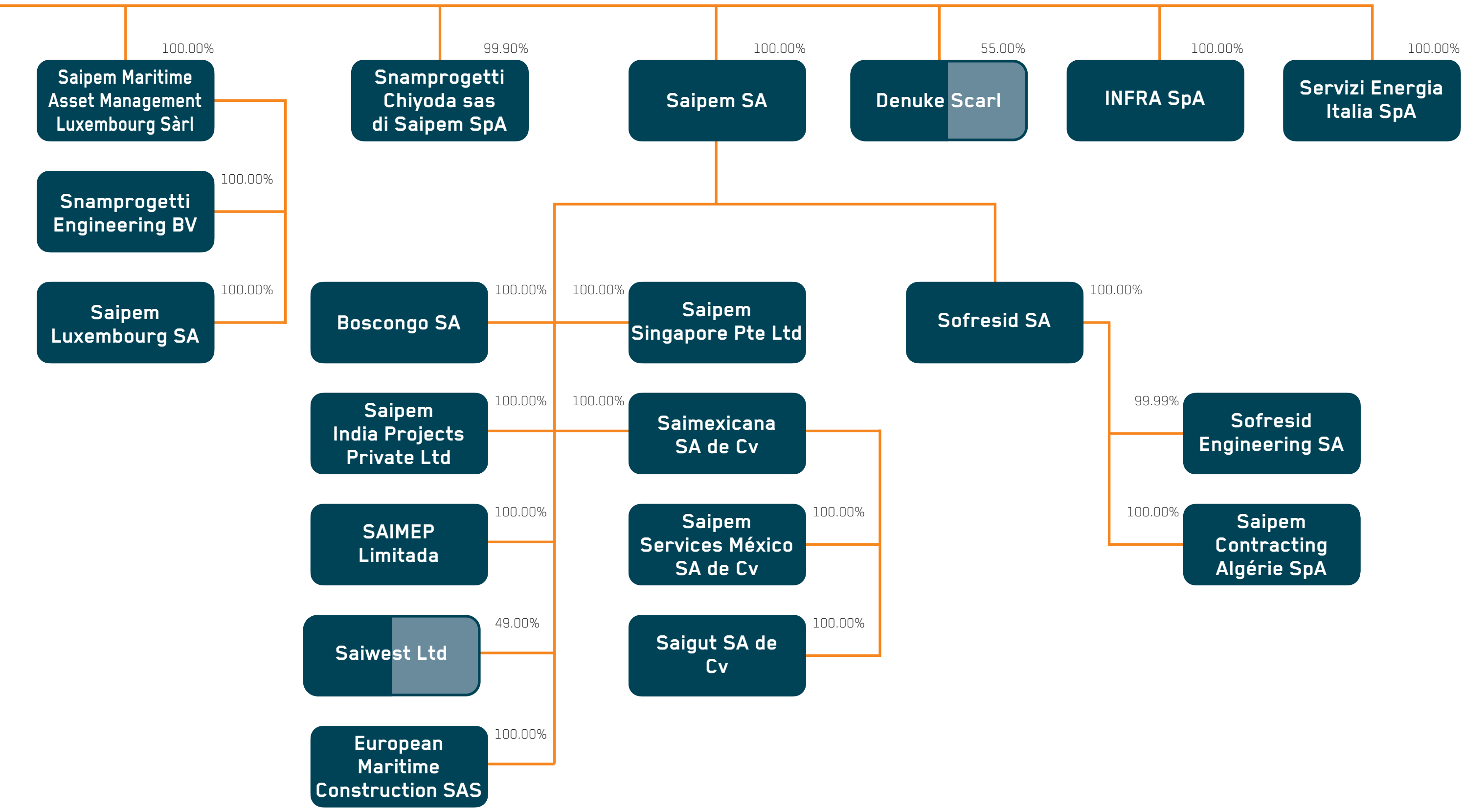
The Chairman
Francesco Caio

The Chief Executive Officer (CEO)
Stefano Cao

SHAREHOLDER STRUCTURE OF THE SAIPEM GROUP
(subsidiary companies)



Saipem SpA
60.00%
Smacemex Scarl
100.00%
Saipem International BV
99.00%
Andromeda Consultoria Tecnica e Representações Ltda
1.00%
100.00%
Snamprogetti Netherlands BV
100.00%
Saipem Offshore Norway AS
25.00%
75.00%
Saipem Finance International BV
60.00%
Sajer Iraq Llc
Saipem East Africa Ltd
49.00%
51.00%
100.00%
Global Petroprojects Services AG
100.00%
Saipem Asia Sdn Bhd
Snamprogetti Engineering & Contracting Co Ltd
70.00%
100.00%
Saipem do Brasil Serviçõs de Petroleo Ltda
99.99%
PT Saipem Indonesia
Saipem Romania Srl
99.00%
1.00%
100.00%
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
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

Directors' Report

SAIPEM SPA SHARE PERFORMANCE

In 2018, the price of ordinary Saipem shares on the Italian Stock Exchange fell by 15%. At the same time, we note that the American industry index, OSX, which includes service companies in the oil industry, decreased by 47%, while the FTSE MIB index, the largest Italian securities list, recorded a decrease of 16%.
At the beginning of 2018, the Saipem share continued the upward trend which began at the end of 2017 in a generally positive climate for the energy industry. This was helped by the agreement between OPEC and Russia regarding the extension of oil production cuts. From the end of January, caution prevailed on the main international stock markets due to uncertainties in the global economy and the US political scene. Oil prices fell and the Saipem share was dragged down, along with those of the entire oil services sector. However, the price of crude oil proved to be resilient and from the middle of February it began to rise again. The Saipem share remained volatile for a few weeks, due to the low number of new contracts and a coverage of the expected revenues for the following year which were considered insufficient.
The share dropped to its lowest point of the year at €3.10 on April 9, after which it continued to rise, albeit slowly when compared to the sector. In May, following the quarterly results and thanks to the publication of some optimistic reports by leading financial analysts on the sector and on Saipem, there was a sudden acceleration of the uptrend, with significant purchase volumes.
The share, albeit influenced by a certain volatility, continued to increase throughout the summer and up to the beginning of October, driven by the acquisition of three significant contracts in June and the announcement of the positive results of the first half, despite the not brilliant performance of the Milan Stock Exchange caused by the uncertainties of the Italian political scenario after the elections.
The share reached the year high on October 1 at a price of €5.43, driven by a new upward acceleration in the price of oil, favoured by factors such as the renewed convergence among the OPEC countries, sanctions towards Iran and the instability of Libya. Starting in October, the confidence on international markets gradually deteriorated and the price of oil was subjected to strong pressure due to the fear that geopolitical factors (tensions between the US, China and Russia) would slow down the global economy, reducing the need for energy and triggering imbalances in the oil market. The exit of Qatar from OPEC and the resilience of American shale oil, fuelled fears of overproduction and the price of crude oil reversed the trend with a rapid decline that dragged energy company share prices down just as quickly. The Saipem

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

(1) Figures pertain to the consolidated financial statements.

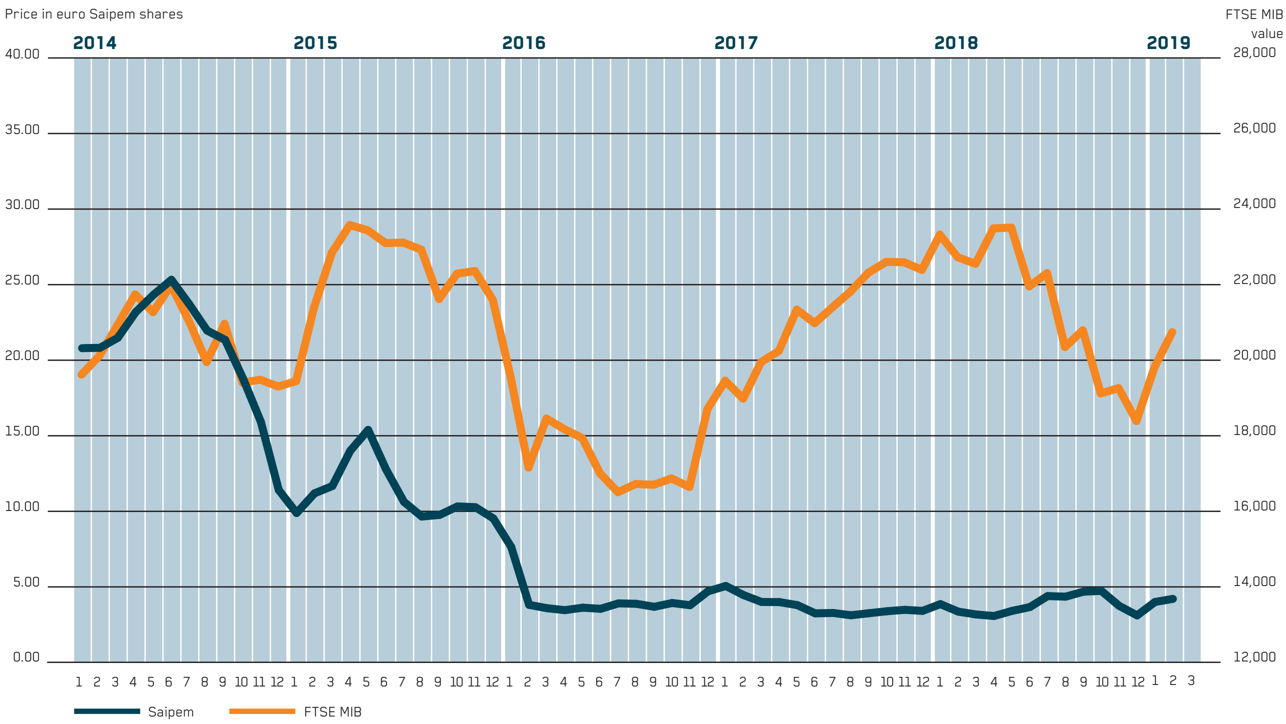
share fell to €4.52 on October 23, with a return on speculative investments and short positions.
Thanks to the announcement of new significant contracts and quarterly results in line with the annual guidance the share price remained at around €4.60 at the beginning of November, however, due to the downward trend of oil prices and the Oil & Gas sector, it dropped to €3.25 per share on December 28, last listing of the year, close to the annual minimum of early April.
At the beginning of 2019 there was a rebound in the share price, supported by the reversal in the trend of oil prices and by the confidence created by the acquisition of additional significant contracts by Saipem at the end of 2018, which brought the share to €4 at the end of January.

Saipem's market capitalisation at the end of the year was approximately €3.2 billion.
In terms of share liquidity, shares traded during the year totalled approximately 2.8 billion (2.4 billion registered in the previous year). The average number of shares traded daily for the period totalled 11.2 million, an increase of 20% compared to the 9.3 million in the same period of the previous year.
The value of shares traded amounted to €11.2 billion, compare to the €9.1 billion, recorded in 2017.
As regards savings shares, which are convertible at par with ordinary shares, at the end of December 2018 there were 10,598.
Their value, due to scarce liquidity, registered slight changes during the year, reaching a price of €40.00 at the beginning and end of the period.

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

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

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



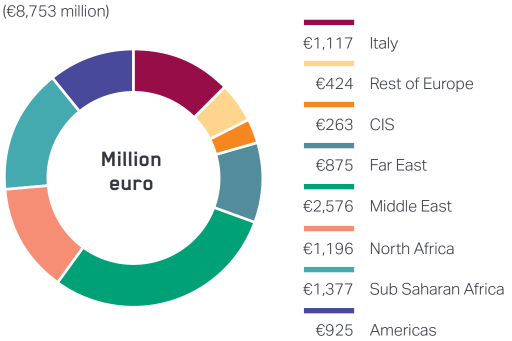
OPERATING REVIEW

Organisational structure

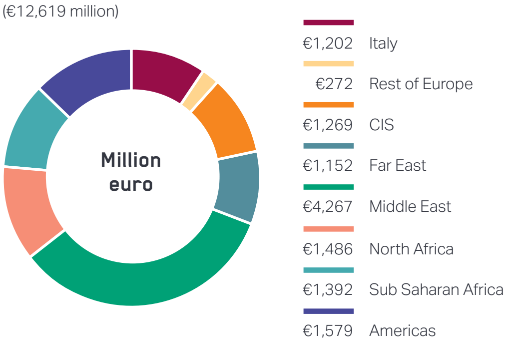
In July 2018, the Board of Directors approved a new strategic orientation for the Company and the organisational model.
In particular:
- the Offshore Engineering & Construction business was identified as the 'core' business with the objective of maintain and re-enforcing the leadership position, even through the use of targeted investments;
- the Onshore Engineering & Construction business is focused on completing turnaround, aimed at recovering profitability, even through a repositioning of the portfolio;
- for both Onshore and Offshore Drilling, efforts toward increasing efficiency continued and strategic options were assessed with the goal of maximising value of the individual businesses.

In line with the above, organisational change was approved in July 2018 aimed at completing the process of divisionalisation which began in 2017 and which gave each Division full autonomy particularly regarding sales, project execution, technology and Research and Development, business strategies, partnerships, etc. This process ended in December.
Following the adoption of the new strategic orientation and the change in the organisational model, the impairment test procedure of the Group Cash Generating Unit was also updated.

NEW CONTRACTS BY GEOGRAPHIC AREA
(€8,753 million)



ORDER BACKLOG BY GEOGRAPHIC AREA
(€12,619 million)



Market conditions

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

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

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

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

New contracts and backlog

New contracts awarded to the Saipem Group in 2018 amounted to €8,753 million (€7,399 million in 2017).
48% of all contracts awarded were in the Offshore Engineering & Construction sector, 46% in the Onshore Engineering & Construction sector, 3% in the Offshore

Saipem Group - New contracts awarded during the year ended December 31

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

Saipem Group - Backlog as at December 31

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

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

Drilling sector and 3% in the Onshore Drilling sector.
New contracts to be carried out abroad made up 87%. Contracts awarded by Eni Group companies were 6% of the overall figure. Orders awarded to the parent company Saipem SpA amounted to 36% of the overall total.
The residual backlog of orders at December 31 amounted to €12,619 million (€12,392 million at December 31, 2017), which does not include the residual backlog of joint venture contracts which is equal to €1,844 million. The €29 million increase in the backlog from €12,363 million at December 31, 2017 is due to the application of the accounting standard IFRS 15, specifically: €16 million are related to contracts in the Offshore Drilling sector, €8 million to contracts in the Onshore Engineering & Construction sector and €5 million to contracts in the Onshore Drilling sector.
The breakdown of the backlog by sector is as follows: 39% in the Offshore Engineering & Construction sector, 50% in the Onshore Engineering & Construction sector, 6% in Offshore Drilling and 5% in Onshore Drilling. 90% of orders were on behalf of overseas clients, while orders from Eni Group companies represented 4% of the overall backlog. The parent company Saipem SpA accounted for 39% of the total order backlog.

Capital expenditure

Capital expenditure in 2018 amounted to €485 million (€262 million in 2017) and mainly related to:
- €345 million in the Offshore Engineering & Construction sector: purchase of the vessel the Saipem Constellation and upgrading of the existing asset base;
- €28 million in the Onshore Engineering & Construction sector: purchase and maintenance of equipment;
- €66 million in Offshore Drilling: class reinstatement works on the jack-up Perro Negro 7 and upgrading of the drillship Saipem 12000 for the purchase of the second BOP in addition to maintenance and upgrading on other vessels;
- €46 million for Onshore Drilling: upgrading of rigs for operations in Kazakhstan and South America, as well as the upgrading and maintaining of other assets.

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

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

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

OFFSHORE ENGINEERING & CONSTRUCTION

General overview

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

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

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

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

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

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

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

Market conditions

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

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

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

Capital expenditure

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

New contracts

The most significant awards in 2018 include:
- for Barzan Gas Co, a new contract in the Middle East, which includes engineering, procurement, construction and installation related to two export pipelines, two interconnection pipelines, connecting elements between pipelines and various subsea structures;
- for Petrobel, additional work related to the 'Ramp Up to Plateau' phase of the 'supergiant' Zohr Field Development project, located in the Mediterranean Sea off the Egyptian coast. Activities include engineering, procurement, construction and installation of a second gas export pipeline and related interconnection lines, umbilicals and electric and fibre optic cables, as well as EPCI works for the development of 10 deep water wells;
- for Esso Exploration & Production Guyana Ltd, a contract in Guyana for the second phase of the development of the Liza field, continuing from the first phase already assigned in 2017. The scope of the work concerns the engineering, procurement, construction and installation of risers, pipelines, subsea structures and connecting jumpers, as well as the transportation and installation of umbilicals, manifolds and water and gas injection systems;
- for Total, a contract in Azerbaijan for the development of the Absheron camp in the Caspian Sea. The scope of the work includes engineering, procurement, construction and installation, assistance for commissioning and testing of a production flowline, a terminal structure and the related umbilical cable;
- for Tolmount Development Partners (Premier Oil and Dana Petroleum), a contract in the southern part of the North Sea, which involves engineering, procurement, construction and installation of a pipeline system and related facilities for the development of the Tolmount field;
- for Eni Congo, a contract in the Republic of Congo for an MMO (Maintenance, Modifications & Operations) project related to the Electrique du Congo plant, which will cover more than half of the country's electricity needs;
- for ConocoPhillips, a new contract in the North Sea that encompasses dismantling of the LOGGS platform topside and jacket;
- for Al Khafji Joint Operations (KJO), a new project in the Arabian Gulf that includes engineering, installation and commissioning of a new pipeline for the transportation of crude oil;
- for Eni Congo, a contract in the Republic of Congo for an MMO (Maintenance, Modifications & Operations) project for providing maintenance, modification and improvement services for all Eni Congo offshore sites in the Republic of Congo for 36 months. The scope of the work includes on-site maintenance activities, such as emergency intervention, planned and unplanned maintenance, as well as the supply of spare parts, materials and

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

Work performed

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

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

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

In Guyana, for ExxonMobil:
- engineering and procurement activities are nearing completion on the Liza project for the engineering and procurement, and fabrication for the **Liza Phase 1** project are in progress, which include fabrication and installation of risers, flowlines, related structures and connections to develop the field located off the coast of Guyana at a depth of 1,800 metres. The contract also includes the transport and installation of umbilicals, foundations and collectors for wells and water and gas injection wells and systems;
- engineering and procurement activities have begun for the **Liza Phase 2** project, which includes engineering, procurement, fabrication and installation of risers, umbilicals, collectors, flowlines, well connections and related facilities for the development of the Liza field.

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

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

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

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

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

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

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

Offshore fleet at December 31, 2018

Saipem 7000	Self-propelled, semi-submersible, dynamically positioned crane and pipelay vessel capable of lifting structures of up to 14,000 tonnes and J-laying pipelines at depths of up to 3,000 metres.
Saipem Constellation	Dynamically positioned vessel for Reel-Lay of rigid and flexible pipelines, down to ultra-deep water depths. It is equipped with a 3,000 tonnes crane and 2 tensioners each with 400 tonnes capacity.
Saipem FDS	Dynamically positioned vessel utilised for the development of deep-water fields at depths of over 2,000 metres. Capable of launching 22" diameter pipes in J-lay configuration with a holding capacity of up to 750 tonnes and a lifting capacity of up to 600 tonnes.
Saipem FDS 2	Dynamically positioned vessel utilised for the development of deep-water fields, capable of launching pipes with a maximum diameter of 36" in J-lay mode with a holding capacity of up to 2,000 tonnes and depths up to 3,000 metres. Also capable of operating in S-lay mode with a lifting capacity of up to 1,000 tonnes.
Castoro Sei	Semi-submersible pipelay vessel capable of laying large diameter pipe at depths of up to 1,000 metres.
Castorone	Self-propelled, dynamically positioned pipe-laying vessel operating in S-lay mode with a 120-metre long S-lay stern stinger composed of 3 articulated and adjustable sections for shallow and deep-water operation, a holding capacity of up to 1,000 tonnes, pipelay capability of up to 60 inches, onboard fabrication facilities for triple and double joints and large pipe storage capacity in cargo holds.
Normand Maximus	Dynamic positioning ship (acquired through a long-term lease) for laying umbilicals and flexible lines up to a depth of 3,000 metres. It is equipped with a crane that has a lifting capacity of up to 900 tonnes and a 550 tonne vertical lay tower with the possibility of laying rigid flow lines.
Saipem 3000	Mono-hull, self-propelled D.P. derrick crane ship, capable of laying flexible pipes and umbilicals in deep waters (3,000 metres) and lifting structures of up to 2,200 tonnes.
Dehe	Dynamically positioned (leased) vessel equipped with anchors for laying pipes and a crane with a lifting capacity of up to 5,000 tonnes, capable of deep water installations up to depths of 3,000 metres and laying pipes up to 600 tonnes using 3 tensioners.
Castoro II	Derrick lay barge capable of laying pipe of up to 60' diameter and lifting structures of up to 1,000 tonnes.
Castoro 10	Trench/pipelay barge capable of burying pipes of up to 60" diameter and of laying pipes in shallow waters.
Castoro 12	Pipelay barge capable of laying pipes of up to 40" diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
Castoro 16	Post-trenching and back-filling barge for pipes of up to 40" diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
Ersai 1	Heavy lifting barge equipped with 2 crawler cranes, capable of carrying out installations whilst grounded on the seabed and is capable of operating in S-lay mode. The lifting capacities of the 2 crawler cranes are 300 and 1,800 tonnes, respectively.
Ersai 2	Work barge equipped with a fixed crane capable of lifting structures of up to 200 tonnes.
Ersai 3	Support barge with storage space, workshop and offices for 50 people.
Ersai 4	Support barge with workshop and offices for 150 people.
Bautino 1	Shallow water post trenching and backfilling barge.
Bautino 2	Cargo barge for the execution of tie-ins and transportation of materials.
Ersai 400	Accommodation barge for up to 400 people, equipped with gas shelter in the event of an evacuation due to H_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 2018, based on the EPC projects declared to the market, shows a volume of allocations increasing over the last three years. During the period of downturn in the market recorded after 2014, engineering and construction companies operating in E&C have undertaken a renewal process aiming to search for new technologies and opportunities, even outside their traditional markets, with particular attention to project efficiency and costs. Although the price of oil reached $80/barrel in 2018, uncertainty of market recovery times remained evident. The ongoing geopolitical tensions in different areas weigh on the current context, such as in Iran where the finalisation of new projects is encountering various obstacles, following also sanctions imposed by the United States.

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

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

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

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

Capital expenditure

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

New contracts

The most significant contracts awarded to the Group during 2018 were:
- for Rete Ferroviaria Italiana, a new contract for the construction of the first lot of the Brescia-Verona high speed rail line. The contract provides for the engineering, procurement and construction of a railway track of approximately 48 kilometres involving the regions of Lombardy and Veneto and, in particular, the provinces of Brescia, Mantua and Verona;
- for Duqm Refinery and Petrochemical Industries Co, a new contract for engineering, construction procurement and start-up of package 3 as part of the Duqm Refinery development project, located near the coast, in the north east of Oman. Once completed, the refinery will have a capacity of around 230,000 barrels per day;
- for Saudi Arabian Oil Co (Saudi Aramco), a new contract for the procurement and construction for the 'South Gas Compression Plant Pipelines' project related to the development of the gas plant Haradh (HdGP), located in the east of the country. This project is part of the Southern Area Energy Efficiency Programme;
- for PTT LNG, a new contract which provides for the engineering, procurement, construction and start-up of the Nong Fab terminal for the reception, storage and regasification of liquefied natural gas in the Mueang Rayong district of south-east Thailand;
- for ExxonMobil Iraq Ltd, a new contract in Iraq for the DS6 project for the debottlenecking of the West Qurna field. Debottlenecking is the optimisation process of a facility in order to increase its overall capacity;
- for Petròleos Mexicanos (Pemex), a new contract in Mexico related to work in the 'Miguel Hidalgo' refinery located in Tula de Hallende. The contract provides for the relaunch of a hydrodesulphurisation plant for residues used to reduce sulphur levels in products derived from the refining of oil;
- for Nigeria LNG Ltd, a new contract in Nigeria for Front End Engineering Design and preparing the EPC proposal for the NLNG T7 project, which provides for the expansion of the existing LNG plant located in Finima on Bonny island;
- for Gastrans, a contract for engineering services and the acquisition of construction permits regard the laying of gas pipelines in Serbia;
- for Thai Oil, a joint venture[1] new contract with Samsung Engineering and Petrofac International (leader), which provides for engineering, procurement, construction and start-up relating to the completion of new units in the Sriracha refinery located approximately 130 kilometres from Bangkok, Thailand. The new units for processing crude oil and residue, with related utilities, allow for an increase in the refinery's capacity of approximately 50%.

Work performed

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

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

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

The Package 1 contract includes the gasification unit, the soot and ashes removal unit, the acid gas removal unit and the hydrogen recovery unit. The Package 2 contract includes two sulphur recovery units and the associated storage systems. The scope of work of both packages include engineering, procurement, construction, pre-commissioning, assistance to commissioning;
- for Petrorabigh (a joint venture between Saudi Aramco and Sumitomo Chemical), the mechanical completion of the **Rabigh II** project related to the naphtha conversion plant and the complex for the production of aromatic compounds, while additional works, awarded during the second half of 2016, are ongoing related to the Utilities and Offsite Facilities package;
- for Saudi Aramco, work is coming to a close on the **Complete Shedgum-Yanbu Pipeline Loop 4&5** project, which included detailed engineering, procurement of all materials, excluding the line pipe supplied by the client, construction, pre-commissioning and assistance with commissioning;
- for Saudi Aramco, in November, in the **EPC Khurais** project, which provides for the expansion of onshore production centres in the Khurais, Mazajili, Adu Jifan, Ain Dar and Shedgum fields, the Satellite and the Gosp 5 plants (oil production) were delivered and began production;
- for Saudi Aramco, material procurement and construction began for the **South Gas Compression Plants Pipeline** project relating to the development of the gas plant Haradh (HdGP) located in the east of the country, which provides for the auditing of detailed engineering developed by the client, procurement of all materials, excluding the line pipe for coated carbon steel lines provided by the client, as well as construction, pre-commissioning and commissioning support.

In Kuwait:
- engineering and procurement activities are ongoing for Kuwait Oil Co (KOC) related to the **Feed Pipelines for New Refinery** project. The contract includes engineering, procurement, construction and commissioning activities related to the development of the new connection lines and related pumping station and measurement of the new Al Zour refinery located in south Kuwait;
- for Kuwait Integrated Petroleum Industries Co (KNPC), in joint venture with Essar Projects Ltd, engineering and procurement activities for the **Al-Zour Refinery**, Package 4 project are nearing completion. The contract encompasses design, procurement, construction, pre-commissioning and assistance during commissioning tests, start-up and checks on the performance of tanks, related road works, offices, pipelines, piping support frames, water works and control systems for the Al-Zour refinery.

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

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

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

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

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

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

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

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

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

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

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

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

Floaters

The FPSO market continues to expand, despite current uncertainties.

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

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

New contracts

The most significant contracts awarded to the Group during 2018 were:
- for LLC ARCTIC LNG-2, a new contract acquired in joint venture[2] with RHI Russia BV (affiliated company of Renaissance Heavy Industries Llc), which is part of the construction of three liquefied natural gas plants that will be installed on reinforced concrete support and storage structures. The scope of the contract includes design, procurement, construction, transportation by sea and installation of three concrete support and storage structures. Construction will take place in Murmansk on a site made available by Novatek and then the structures will be transported and installed in Gydan, Russia.

Work performed

The largest/most important projects under way or completed during 2018 were:
- in Angola, for Total, entry into production began for the **FPSO Kaombo Norte**. Construction and testing was completed in the **FPSO Kaombo Sul** site, which will be moored in Angola during the first quarter of 2019. The Kaombo project involves engineering, procurement, construction and commissioning of two FPSO vessels, followed by a production and maintenance management phase for a duration of 7 years plus an additional 8 optional years.

In the Leased FPSO segment, the following vessels carried out operations during 2018:
- the **FPSO Cidade de Vitoria** carried out operations for Petrobras as part of an eleven-year contract on the second phase of development of the Golfinho field, situated off the coast of Brazil at a water depth of 1,400 metres;
- the **FPSO Gimboa** carried out operations on behalf of Sonangol P&P under a contract for the development of the Gimboa field, located in Block 4/05 offshore Angola, at a water depth of 700 metres.

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

OFFSHORE DRILLING

General overview

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

Market conditions

During 2018, the first signs of a possible recovery of the market in the medium term were recorded; the commercial activities conducted by customers for the award of future contracts were indeed rather significant, suggesting a gradual recovery in the planning of future activities.
The uneven trend in oil prices during the course of 2018 demonstrates a climate of uncertainty. The pressure on rates, which remained at the mostly weak levels recorded in 2017, was very high also in 2018.
Similarly, rates of use did not differ from the average values of 70% recorded in 2017, with the sole exception of the decline in the deep water floaters segment, which once again proved to be among the worst hit by the weakness of the market.
In line with recent years, the Oil & Gas sector's downturn has continued pushed several companies to opt for dismantling the oldest assets and those with the lowest probability of being used. Overall approximately 200 facilities have been withdrawn from the market since the beginning of the crisis, leading to a more than 20% drop in drilling rigs. While up until 2017 the floaters segment suffered the greatest downsizing, in 2018 it was the standard jack-up category, with more than 30 plants withdrawn, that suffered the most significant drop.
Due to the significant number of contracts awarded during the previous positive market phase, the construction of new offshore drilling units continued to remain at significant levels: 119 new units are currently in construction (77 jack-ups, 14 semi-submersibles and 28 drillships), of which only five have been contracted for use. As has already occurred in the past, the negative market phase has also led, in several cases, to the postponement of the time frames for the delivery of plants under construction, ostensibly to 2019 and beyond, while awaiting better market conditions. The significant number of units that will be delivered in the medium term, the already mentioned retirement that affected part of the existing fleet and the consolidation operations on the market that occurred between 2017 and 2018 represent important changes in the offshore drilling segment that may have beneficial effects in the medium to long term.

New contracts

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

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

Capital expenditure

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

Work performed

In 2018, Saipem's offshore units drilled 67 wells (of which 48 workovers), totalling 78,871 metres.
The fleet was used in the following way:
- ultra deep water/deep-water units: the drillship **Saipem 12000** operated off the coast of Cyprus where, at the beginning of March, it completed the first of two wells provided for the contract with the client Eni. Subsequently, for reasons not attributable to Saipem, it was impossible to drill the second well so the client opted to move the drillship to Morocco for the operations completed in the month of May. The vessel was then sent to warm stacking in Las Palmas in the Canary Islands until its transfer, completed in December, in Pakistan for contracts signed with Eni, the drillship **Saipem 10000** continued operations in Egypt in the framework of a multi-year contract for Eni. In March, the semi-submersible **Scarabeo 9**, completed drilling operations for a well in the Black Sea and subsequently was prepared to cross the Bosphorus (disassembly of drilling towers and reassembly after the crossing) and began drilling for IEOC in Egypt. The semi-submersible **Scarabeo 8** was operating until May preparing for contractual commitments with Shell, Total and AkerBP and, subsequently, completed operations for Shell and started operations for Total. The semi-submersible **Scarabeo 7**, following the customer's decision to suspend operations due to difficult market conditions, remained in paid standby until May then it started operations to drill a well off the coast of Vietnam for Eni, from September onwards it was used by Eni in Indonesia. The semi-submersible **Scarabeo 5**, written down in 2017, remained in stacking, awaiting the acquisition of new contracts;
- high specification jack-up: the **Perro Negro 8** and the **Perro Negro 7** continued to operate respectively for ADNOC off the coast of the United Arab Emirates and for Saudi Aramco off the coast of Saudi Arabia;
- standard jack-ups: the **Perro Negro 2**, written down in 2016, remained laid-up on Saipem's base in Sharja, United Arab Emirates, while waiting for new works. The **Perro Negro 5** continued operations in Saudi Arabia for Saudi Aramco. The **Perro Negro 4** continued operations in the Red Sea for Petrobel;
- other: the tender assisted **Saipem TAD** completed operations for Eni in January and, as of February has been working for Total off the coast of Congo, then completed in the month of December.

Utilisation of vessels

Vessel utilisation in 2018 was as follows:

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

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

ONSHORE DRILLING

General overview

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

Market conditions

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

Capital expenditure

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

Work performed

In 2018, Saipem's offshore units drilled 163 wells (of which 8 workovers), totalling 638,927 metres.
In Latin America Saipem operated in several countries: in **Peru** work was carried out for various clients, (including Pluspetrol, CNPC, Frontera Energy and Petrotal) and Saipem was present in the country with seventeen of its own rigs (13 of which were used onshore and four were installed on offshore rigs) and two provided by the client. In **Bolivia** a total of five rigs were used for YPFB Andina, Shell and Repsol. In **Argentina** two rigs were used for Total and ExxonMobil. In **Colombia** Saipem was present with one rig that was used for Parex and Canacol Energy. In **Ecuador** four unites were deployed, one of which is operating with Halliburton. In **Venezuela** the nineteen rigs in the country remained inactive. In **Romania** drilling activities were carried out with the client OMV-Petrom. In **Saudi Arabia** Saipem deployed twenty-eight rigs which carried out operations for Saudi Aramco under previously acquired multi-year contracts. In **Kuwait** operations of two Saipem units provided to the client KOC are ongoing, under previously existing contracts. In **Kazakhstan** Saipem operated with three owned rigs, two of which where contracted to the client Zhaikmunay. One rig continued its operations and the second began drilling in the second half of 2018. In September rig 5947 was transferred to the United Arab Emirates (Sharjah) for commercial and strategic reasons. In Africa, Saipem operated in the **Congo** and in **Morocco**, in the former case for Eni Congo SA with the management of a unit owned by the client, and in the latter with a proprietary rig which began activities for Sound Energy. In **Italy**, work continued on

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

Utilisation of rigs

Average utilisation of rigs in 2018 was 65.3% (58% in 2017). As of December 31, 2018, company-owned rigs amounted to 84, located as follows: 28 in Saudi Arabia, 19 in Venezuela, 17 in Peru, 5 in Bolivia, 4 in Ecuador, 2 in Argentina, 2 in Kazakhstan, 2 in Kuwait, 1 in Colombia, 1 in the United Arab Emirates, 1 in Italy, 1 in Morocco and 1 in Romania.
In addition, 2 third party rigs were used in Peru and 1 third-party rig in the Congo.

FINANCIAL AND ECONOMIC RESULTS

Reorganisation: impact on reporting

Since May 1, 2017, Saipem has had a new organisational structure comprising 5 divisions (Onshore Engineering & Construction, Offshore Engineering & Construction, Onshore Drilling, Offshore Drilling and XSIGHT). The results of the business sectors are published in line with the new organisational structure. The Floaters business line, which was previously part of the Offshore Engineering & Construction Division, is now part of the Onshore Engineering & Construction Division. The XSIGHT Division is temporarily included in the Onshore Engineering & Construction because it is still in the start up phase and its results are currently not significant from a numerical perspective.

Operating results

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

Saipem Group - Income statement

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

Net sales from operations in 2018 amounted to €8,526 million.
Gross operating profit (EBITDA) amounted to €848 million. Depreciation, amortisation and impairment of tangible and intangible assets amounted to €811 million.
The **operating result (EBIT)** for 2018 amounted to €37 million. The main discrepancies are detailed below in the analysis by segment of operations.
The balance of net finance income (expense) is -€165 million, down €58 million as a result of a lower exchange rate expenses.
The balance of net income (expenses) from investments is -€88 million, due to the worsening of a joint venture contract, accounted for using the equity method.
The **result before income taxes** amounted to a loss of €216 million. Income taxes were €194 million.
The **net result** was -€472 million.

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

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

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

The loss for the year amounted to €472 million (loss of €328 million in 2017), compared with the adjusted net income reduced by the following special items:
- write-downs of tangible and intangible fixed assets of €343 million deriving from the impairment test, mainly due to the prospective reduction in rates (over the period of the plan) in Offshore Drilling and the updating of the discount rate;
- write-downs of current assets and provisions for costs totalling €109 million in relation to some pending judgements on projects already completed, deriving from the activity of periodic legal monitoring of the evolution of the overall dispute;
- restructuring expenses of €45 million (net of the tax effect).

Adjusted EBIT reconciliation - EBIT 2017

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

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

Adjusted EBIT reconciliation - EBIT 2018

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

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

Saipem Group - Adjusted income statement

(€ million)	Year 2017	Year 2018	% Ch.
Adjusted net sales from operations	**8,999**	**8,587**	**(4.6)**
Other income and revenues	21	4	
Purchases, services and other costs	(6,465)	(6,055)	
Net reversals (impairments) of trade and other receivables	(35)	(57)	
Payroll and related costs	(1,556)	(1,477)	
Adjusted gross operating profit (EBITDA)	**964**	**1.002**	**3.9**
Depreciation, amortisation and impairment	(524)	(468)	
Adjusted operating result (EBIT)	**440**	**534**	**21.4**
Net finance expense	(223)	(165)	
Net income from investments	(9)	(88)	
Adjusted result before income taxes	**208**	**281**	**35.1**
Income taxes	(141)	(194)	
Adjusted result before non-controlling interests	**67**	**87**	**29.9**
Net result attributable to non-controlling interests	(21)	(62)	
Adjusted net profit (loss) for the year	**46**	**25**	**(47.5)**

Adjusted operating result and costs by function

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

The **adjusted net sales from operations** in 2018 for the Saipem Group amounted to €8,587 million, with a decrease of €412 million compared to 2017 due to the reduction of operations in Onshore Engineering & Construction and Offshore Drilling, partly offset by the increase in operations in Offshore Engineering & Construction.
Production costs (which include direct costs of sales and depreciation of vessels and equipment) amounted to €7,469 million, representing an decrease of €520 million compared with 2017.
Idle costs fell by €6 million compared to 2017.
Selling expenses of €145 million showed a €15 million increase due to current commercial efforts.
Research expenses recorded under management costs, equal to €33 million, and general expenses, equal to €173 million, are similar to 2017.

Offshore Engineering & Construction

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

Revenues for 2018 amounted to €3,852 million, representing a 4.3% increase compared to the same period of 2017.
This was mainly attributable to higher volumes recorded in the Middle East and the North Sea, which were in part offset by lower volumes registered in the Caspian Sea and Central South America.
The cost of sales of €3,329 million increased by €192 million compared to 2017, in line with the higher volumes.
The adjusted gross operating profit (EBITDA)

for 2018 amounted to €523 million, compared to €555 million in 2017, while the margin on revenues was 13.6%, a decrease of 15% compared to the corresponding period of 2017. Saipem and South Stream Transport BV have expressed the common intention to negotiate – on a without prejudice basis – an amicable settlement of the arbitration in progress since November 2015.
The negotiations are ongoing. The result includes the effects of the hypothetical settlement being negotiated between the parties regarding the South Stream project.
Depreciation and amortisation rose by €9 million compared to 2017, mainly due to the purchase and subsequent amortisation of the vessel, the Saipem Constellation.
The operating result (EBIT) for 2018 amounts to €305 million and includes the restructuring expenses for €13 million.

Onshore Engineering & Construction

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

Adjusted revenues for 2018 amounted to €3,769 million, down by 10.3% compared to the same period in 2017, due mainly to lower volumes recorded in the Middle and Far East partly offset by greater volumes recorded in Central South America and the Caspian Sea.
The adjusted gross operating profit (EBITDA) for 2018 amounted to €118 million, compared to -€21 million for 2017, which was reduced by the effect of the worsening of Floater business line profitability. Adjusted EBITDA does not include the loss of a joint venture contract, classified under the item ‘expenses from equity investments’ and corresponding to almost all of this item.
Depreciation and amortisation are equal to €40 million, a decrease compared to 2017, mainly due to the end of the useful life of an FPSO vessel.
The operating result (EBIT) for 2018 amounted to a loss of €125 million and is inclusive of the write-down, following the impairment test, of the intangible assets (goodwill) for €60 million and an FPSO vessel for €13 million, the write-down of current assets and provisions for €109 million and for restructuring expenses of €21 million.

Offshore Drilling

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

Revenues for 2018 amounted to €465 million, a 24.1% decrease compared to the same period of 2017, mainly attributable to the semi-submersible rigs Scarabeo 5, completely written-down in previous years, and Scarabeo 8 which was idle for five months in 2018; this decrease was partly offset by greater revenues generated by the full scale operations of the jack-up Perro Negro 8 and the semi-submersible rig Scarabeo 9, which had been undergoing class reinstatement works in the first quarter of 2017.
The cost of sales, which amounted to €239 million, was down €53 million, in line with the decrease in volumes compared to the same period of 2017.
The adjusted gross operating profit (EBITDA) for 2018 amounted to €226 million, compared to €321 million for the same period in 2017, while the margin on revenues was 48.6%, almost four points lower than the corresponding period of 2017, which was 52.4%. Maintaining the margin percentages, despite a significant reduction in activity, is largely attributable to the significant cost optimisation measures that were implemented.
Depreciation and amortisation decreased by €16 million compared to the same period in 2017, as a result of write-downs at the end of 2017.
The operating result (EBIT) for 2018 amounted

to a loss of €149 million, including the write-down of some vessels following the impairment test for €262 million and restructuring expenses for €7 million.

Onshore Drilling

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

Revenues in 2018 amounted to €501 million and were in line with the figure for the same period in 2017.
The adjusted gross operating profit (EBITDA) for 2018 amounted to €135 million, equal to 26.9% of revenue, an improvement compared to the €109 million of 2017, which was equal to 22.2%. This was thanks to cost optimisation measures implemented in South America and to the recovery in efficiency in the Middle East.
Depreciation of €117 million showed a €16 million decrease versus the same period in 2017, as a result of write-downs at the end of 2017.
The operating result (EBIT) for 2018 is €6 million and includes write-downs of tangible assets for €8 million and restructuring expenses for €4 million.

Balance sheet and financial position

Saipem Group - Reclassified consolidated balance sheet [1]

The reclassified consolidated balance sheet aggregates asset and liability amounts from the statutory balance sheet according to function, under three basic areas: operating, investing and financing.
Management believes that the reclassified consolidated balance sheet provides useful information that helps investors to assess Saipem's capital structure and to analyse its sources of funds and investments in fixed assets and working capital.

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

(1) See 'Reconciliation of reclassified balance sheet, income statement and cash flow statement to statutory schemes' on page 64.
(2) Data were restated following the entry into force of IFRS 9 and IFRS 15.

Management uses the reclassified consolidated balance sheet to calculate key ratios such as the Return On Average Capital Employed (ROACE) and leverage (used to indicate the robustness of the company's capital structure).
Non-current assets at December 31, 2018 stood at €5,106 million, a decrease of €369 million compared to January 1, 2018.
The change derives from capital expenditure of €512 million, from depreciation and amortisation of €343 million and impairment of €468 million, from negative changes in investments accounted for using the equity method of €88 million and the negative net effect of €18 million deriving mainly from the translation of financial statements in foreign currencies and other changes.
Net current assets decreased by €276 million, from €571 million at January 1, 2018 to €295 million at December 31, 2018.
Provisions for employee benefits amounted to €208 million, an increase of €9 million compared to January 1, 2018.
Assets held for sale amounted to €2 million and relate to a minority interest in Tecnoprojecto Internacional Projectos e Realizações Industriais SA.
As a result of the above, **net capital employed** decreased by €652 million, reaching €5,195 million at December 31, 2018, compared with €5,847 million at January 1, 2018.
Shareholders' equity, including minority interests, amounted to €4,036 million at December 31, 2018, compared with €515 million at January 1, 2018. This decrease reflected the negative effect of the net result for the period (€410 million), the negative effect of change in the fair value measurement of derivatives hedging exchange and commodity risk (€82 million) from the negative effect of the purchase of minority interest (€64 million), the negative effect of dividend distribution (€8 million), compensated in part by the positive effect on shareholders' equity from the translation into euro of financial statements expressed in foreign currencies and other variations amounting to €49 million.
Net borrowings at December 31, 2018, stood at €1,159 million, compared to €1,296 million at January 1, 2018. During the year the cash flows generated and control over working capital and investments made it possible to absorb the disbursements for the purchase of the vessel Saipem Constellation, and for the debt payment to Sonatrach relating to the LPG arbitration award.

Analysis of net borrowings

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

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

Statement of comprehensive income

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

Shareholders' equity including non-controlling interests

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

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

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

Reclassified cash flow statement [1]

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

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

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

Net cash provided by operating activities positive for €711 million net of the negative cash flow from capital expenditures and other investment related changes €511 million, generated a positive cash flow of €200 million.
Cash flow from capital and reserves showed a negative balance of €79 million, related to the payment of dividends and the effect from the purchase of non-controlling interests. Exchange rate differences on net borrowings produced a net positive effect of €16 million.
Net borrowings therefore decreased by €137 million.

Net cash generated from operating profit before changes in working capital of €713 million related to:
- the net result for the year of -€410 million;
- depreciation, amortisation and impairment of tangible and intangible assets of €811 million, the effect of the valuation of investments accounted for using the equity method of €87 million, the change in the provision for employee benefits of €8 million partly offset by the exchange rate differences and other changes for €66 million;
- net gains on the disposal of assets of €4 million;

- net finance expense of €85 million and income taxes of €194 million.

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

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

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

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

Key profit and financial indicators

Return On Average Capital Employed (ROACE)

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

Return On Average Operating Capital

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

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

Net borrowings and leverage

Saipem management uses leverage ratios to assess the soundness and efficiency of the Group's capital structure in terms of an optimal mix between net borrowings and shareholders' equity, and to carry out benchmark analyses against industry standards. Leverage is a measure of a company's level of indebtedness, calculated as the ratio between net borrowings and shareholders' equity, including non-controlling interests.

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

Non-GAAP measures

Some of the performance indicators used in the 'Directors' Report' are not included in the IFRS (i.e. they are what are known as non-GAAP measures).
Non-GAAP measures are disclosed to enhance the user's understanding of the Group's performance and are not intended to be considered as a substitute for IFRS measures.
The non-GAAP measures used in the 'Operating review' are as follows:

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

RESEARCH AND DEVELOPMENT

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

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

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

A key element to increasing efficiency is the ability to propose, from project inception, innovative subsea field architectures and cost effective solutions to our clients.
Saipem continues to develop new technologies that allow moving part of the processes currently placed at surface to the seabed, and/or connecting them to facilities positioned at ever-greater distances.

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

Saipem has recently signed several partnerships with clients and providers of key technologies to be integrated into the so-called 'subsea factories' of the future. Among these, an exclusive agreement with Curtiss-Wright for the development, construction, and testing of a barrier fluid-less subsea pump. This is a fundamental step for the industrialisation of desulfation technology SPRINGS™ (developed together with Total and Veolia) and of other proprietary subsea processing technologies.
This development also fits with the 'All-Electric' vision for fields, made of subsea infrastructures not requiring complex electro-hydraulic umbilical to actuate the valves in favour of just electric lines and optical fibres. As part of the Joint Development Agreement signed in 2017 with Siemens, the design and verification of the 'Open Framework' subsea control system components continued, some of which reached an advanced qualification level during the year. Similarly, new agreements have been signed with Wittenstein, for the development of underwater electric actuators, with ATV, for the development of high-cycling valves (now qualified), and with Process Instruments for the joint development of sulphate metres in water.
Saipem has also started the qualification process (with DNV-GL) of an innovative proprietary telescopic joint that optimises the underwater connection and disconnection of the 'subsea factory' modules, facilitating their maintenance activities.

Regarding the subsea processes still under development, Petrobras' conceptual study named Hi-Sep™ on the subsea separation of dense-phase CO_2 was successfully completed, so much so that a next phase is being defined. Furthermore, some of the leading Oil Companies are discussing the third phase of the joint development project (JIP) of the proprietary technology 'Spoolsep' with Saipem, a step that would bring this system, for the separation of water produced together with oil, to a level of maturity close to commercialisation.

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

During 2018, Saipem further focused on the execution efficiency of offshore projects, both by bringing some proprietary technologies into the field and by increasing the portfolio of developing technologies.
The most evident benefits were found in sectors of pipe laying and in subsea field construction (the first two phases of the 'Zohr' project).
Furthermore, in 2018 the new Technological Centre in Ploiesti (Romania) prepared innovative solutions, to speed up welding of pipes in prefabrication, welding in firing line and the non-destructive control of 'clad' pipes, and to automate field joint coating processes. Investigations on high-productivity, single-pass techniques for thick pipes welding, such as Laser and Electron Beam continue.

Efficiency has also increased by extending the automation and digitalisation of production processes on board construction vessels or elsewhere. For this reason, Saipem has been involved for quite some time in an extensive innovation programme that is bringing initial results in the field. An example would be the automation of proprietary FJC (Field Joint Coating) systems that can be controlled remotely, and their digital replicas ('Digital Twins'); systems for operations monitoring on 'Castorone' pipe-laying vessel, which can be replicated remotely; a system for automatic sorting and alignment of pipes in firing line; an initial prototype of a simulator for welders; a software suite to automate the subsea pipeline design; the project data integration on geo-localised grids, and more.

Execution efficiency also passes through a rigorous control of operational risks. The 'IAU' (Integrated Acoustic Unit) system, which controls the risk of flooding a sealine, has almost completed the qualification process with DNV-GL, and today Saipem is offering it on operating projects.
In the Decommissioning sector, Saipem successfully completed the dismantling of the 'BP-Miller' platform, with an unprecedented 'extended' lifting and transport technique, made possible also by the vessel motion monitoring and forecasting tools installed on board the S7000, and by real time 3D collision avoidance system to safely lift and manage massive pieces with extremely tight tolerances.

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

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

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

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

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

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

In the mid-long term, targeting progressive decarbonisation of energy and overall CO_2 reduction, Saipem is pursuing several and diversified actions:
- *CO_2 Management*: the Company is building a technology portfolio to deal either with purification of natural gas from reservoirs with high content of CO_2 or capture of CO_2 from combustion flue gas in power generation and industrial processes;
- *Reduction of Gas Flaring* (mostly natural gas, emissions): a few specific activities have been carried out with relation to real cases; innovative solutions are being developed;
- *Hybrid solutions*: application of novel approaches to optimise integration of renewables/energy storage concepts with fossils exploitation in O&G operations, both onshore and offshore;
- *Circular Economy*: the exploitation of innovative technological solutions to sustainably treat waste or residual/opportunity feedstocks from the O&G industry (or other industries, in perspective including plastics recycling), with their consequent valorisation to energy and/or valuable products, is becoming an important asset.

In the above contest, and with particular reference to the carbon capture technologies, the following developments should be mentioned:
- the license agreement signed with ITEA (a Sofinter Group company) to produce, through ITEA's proprietary ISOTHERM Pwr® 'Flameless' Oxy-Combustion Technology, steam, electricity and pure CO_2 by flexible use of low ranking fuels such as waste, heavy oils, pet coke and other feedstock;
- the joint development agreement signed with Sustainable Energy Solutions (SES), a US start-up company specialised in cryogenic recovery of CO_2, for the development of the SES application of proprietary Cryogenic Carbon Capture™ (CCC) technology for treating natural gas with a high-CO_2 content. The captured CO_2 can be used in many applications, including enhanced oil recovery (EOR) and biofuels or chemical production.

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

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

As regards environment protection, and particularly 'Oil Spill Response', Saipem has completed, in Trieste, the most technologically advanced structure to tap an underwater oil well in uncontrolled blow-out. The Offset Installation Equipment allows for rapid resolution of environmental disasters such as that of the Deepwater Horizon platform in the Gulf of Mexico in 2010.

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

With regard to Process Innovation, Saipem has consolidated the initiative regarding its new incubator of ideas and prototyping laboratory the 'Innovation Factory', aimed at testing solutions to address the challenges of the sector through the adoption of new technologies (digital, in primis) and new methodologies by changing the way Saipem works, not only to increase efficiency and productivity but also to discover and pursue new value propositions.
Top management-defined strategic issues, agile approach, rapid prototyping, digitalisation, cross-industry open-innovation and promotion of innovative thinking internally are the key factors for going after success. Some of the prototypes designed have already been directly tested in the field with interesting results; for example, the issues tackled concerning the track & trace of assets and materials for the digitalisation of construction activities, the potential of using drones on land and in the air at Saipem sites and the application of vision technology to specific activities on the offshore fleet vessels.
A new digital collaborative and data-centric methodology for the whole project life-cycle management ('XDIM™') has been conceived.

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

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

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

HUMAN RESOURCES, QUALITY

Human Resources Management

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

In 2018, the Company launched the 'Flexability' Smart Working Programme, which aims to build a new working model that can best take advantage of opportunities for the work/life balance of its resources, while at the same time effectively coping with new business challenges and maximising company performance.
More specifically, the project will ensure a more efficient working model, oriented at the achievement of results and able to ensure the nurture of the people, a strengthening of widespread leadership and company policies aimed at rewarding initiative, cooperation and skills through accountability and participation in achieving the objectives. Additional levers of action are: digital culture aimed at sharing knowledge and experiences, at the usability of data, through the optimisation of the use of tools for accessing information and the introduction of dynamic spaces, as enabling factors for collaboration, operational efficiency, and the pursuit of results.
With the continuing view to seeking a better work/life balance, were reconfirmed in 2018 the initiatives related to more flexible work hours during spring and summer period, which paved the way for a different approach to time management and to the relationships between managers and employees, guaranteeing, at the same time, the rationalisation of company costs.

Welfare initiatives are a competitive edge for attracting and retaining personnel and they focus on:
- providing support to families;
- health and well-being;
- leisure and mobility;
- social security;
- work life and workplace environment;
- consumer promotions and agreements

using routine practices, methods and instruments that can be adapted to different and specific needs that may arise from different geographical contexts.

Taking into consideration the importance of the population of expatriate personnel, equal to one third of the total, the processes that provide support to international mobility represent a critical factor for success through which Company pursues objectives of integrating and developing personnel, the transfer of critical know-how and the creation of long-term value with regard to the capitalisation of skills and experience gained on projects can be pursued.
In order to ensure continuous and increasingly punctual alignment with market trends and developments while at the same time ensuring practices and methods of approach that take into account of increasingly challenging operating conditions and geographical contexts, an project was launched to review international mobility policies with the goal of generating attraction and retention of the most critical professional skills.
In this light, the Company has chosen to adopt an approach, based on aspects shared by the divisions, which is able to maintain processing and management regulations for expatriate personnel for the whole Group that are uniform but at the same time allows for guaranteeing competitiveness in every business taking into consideration specific variations in each sector.

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

Compensation

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

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

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

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

The '2018 Remuneration Report' was drawn up in compliance with Article 123-*ter* of Italian Legislative Decree No. 58/1998 and Article 84-*quater* of Consob Issuer regulations and was approved by the Board of Directors of Saipem on March 5, 2018, with a favourable vote later expressed by the Shareholders' Meeting on May 3, 2018 (for further details, see the Remuneration Report published on the Saipem site).

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

Considering the context of a challenging business, full attention has been paid to defining the annual remuneration policies for the entire population, aiming to selectively reward those skills that have a greater influence on business results, maintaining the firm commitment to reducing costs while at the same time retaining the distinctive competencies and professional skills which most heavily affect business results and are able to offer a distinctive and decisive contribution to the success of the corporate strategy.
In order to guarantee resource retention, the Company has oriented remuneration policy guidelines with a long-term perspective and the variable incentives have been adopted on a selective basis, in favour of long-term deferred payment instruments, confirming the structure of the remuneration package envisaged in 2017. Furthermore, particular emphasis was given to generational turnover and balance, in order to achieve equilibrium between young and old resources, with particular attention to the transfer of know-how, and with the aim of improving company performance, creating new opportunities and attracting different talents.

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

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

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

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

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

Quality

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

INFORMATION TECHNOLOGY

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

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

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

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

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

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

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

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

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

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

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

New initiatives have been started in the infrastructural area, in particular optimisation and management tools of the centralised infrastructures, using the technical tool Splunk for managing huge amounts of data, with which numerous areas of technical analysis were covered for correct analysis, configuration and management of IT systems. The experiments initiated with IT Adaptive Sourcing and the parallel development of methodologies and solutions to support smart working, have enabled the adoption of the Cloud e-mail service based on Microsoft's Office 365 collaboration suite. Migration is ongoing and will be completed during the first quarter of 2019.
Governance, compliance and security processes were all carried out successfully according to schedule during the year. Activities were carried out required by company control methodology for SAP and Oracle Peoplesoft HCM, as well as for main application software, allowing internal client managers to perform the controls required by company rules.

GOVERNANCE

The **'2018 Corporate Governance and Shareholding Structure Report'** (the 'Report') pursuant to Article 123-*bis* of the Consolidated Finance Act has been prepared as a separate document, approved by Saipem's Board of Directors on March 11, 2019, and published on Saipem's website at www.saipem.com under the section 'Governance'.
The Report was prepared in accordance with the criteria contained in the 'Format for Corporate Governance and Shareholding Structure Reporting - 8th Edition (January 2019)' published by Borsa Italiana SpA and in the Corporate Governance Code.
The Report provides a general and complete framework of the corporate governance system adopted by Saipem SpA. It also furnishes a profile of Saipem and the principles by which it operates, and gives information on the Company's shareholding structure and its adherence to the Corporate Governance Code including the main practices of governance applied and the key characteristics of the system of internal controls and risk management. Finally, it describes the composition and operation of the administration and control bodies and their committees, also in light of the diversity policies adopted by Saipem and equal access to the administrative and control bodies of listed companies required by Law No. 120/2011, currently being applied for three consecutive terms. A detailed description of the roles, responsibilities and skills attributed to them is also provided.
The Report also provides information on procedures adopted with regard to 'Transactions involving interests held by Board Directors and Statutory Auditors and transactions with related parties', which can be consulted on Saipem's website www.saipem.com, under the section 'Governance', the communication policy adopted for institutional investors and shareholders, the processing of company information, and finally on the internal management and disclosure to third parties of Company documents and information concerning Saipem, with particular reference to inside information (Market Abuse - Internal Dealing and Insider Registry procedure).

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

RISK MANAGEMENT

Saipem implements and maintains an adequate system of internal control and risk management, composed of instruments, organisational structures and regulations designed to safeguard Company assets and ensure the effectiveness and efficiency of Company processes, reliable financial reporting, as well as compliance with laws and regulations, the Articles of Association and Company procedures. To this end, Saipem has developed and adopted an Enterprise Risk Management model that constitutes an integral part of its internal control and risk management system. This model has done this with the aim of obtaining an organic and overall vision of the main risks for the Company that may impact strategic and management objectives, ensuring greater consistency of methodologies and tools to support risk management, and strengthening awareness, at all levels, of the fact that an adequate assessment and management of risks may impact on the achievement of objectives and on the Company's value.
The structure of Saipem's internal control system, which is an integral part of the Company's Organisational and Management Model, assigns specific roles to the Company's management bodies, Compliance Committees, control bodies, Company management and all personnel. It is based on the principles contained in the Code of Ethics and the Corporate Governance Code, as well as on applicable legislation, the CoSO Report and national and international best practices. Additional information on the internal control system and risk management, including details concerning its architecture, instruments and design, as well as the roles, responsibilities and duties of its key actors, is contained in the Corporate Governance Report and Shareholding Structure document.
The Saipem Enterprise Risk Management model provides for the assessment of risks on a half-yearly basis both for the Group at the Corporate and Division level and for the main subsidiaries that are strategically relevant and that are identified on the basis of economic-financial and qualitative parameters. Risk assessment is performed by Saipem management through numerous meetings and workshops coordinated by the Corporate and Division Enterprise Risk Management functions. In particular, risk assessment is performed by assessing in detail the risk events that could impact Saipem's strategic and management objectives, taking into account the changes in the business and organisation model and company procedures, developments in the external environment (specifically, political, economic, social, technological and legal aspects) and the relevant industry and competitors.
Furthermore, Saipem has developed a process to monitor the Group's main risks on a quarterly basis through specific monitoring indicators on the evolution of risk and related mitigation activities.
At the same time, on an annual basis, Saipem performs an interrelation analysis between the Group's main risks.
Furthermore, starting from the analysis of materiality carried out by the Sustainability function (more information on this tool is present in the specific, detailed section within the 'Consolidated Non-Financial Statement'), a focus group was introduced to identify the main themes which, according to Saipem's senior managers, are the most risky for the Company and to assess the potential impact they may have.
Saipem is exposed to strategic, operational and external risk factors that may be associated with both Saipem's business activities and the business sector in which it operates. The occurrence of such risks could have negative effects on the Company's business and operations and on the income, balance sheet and/or financial situation of the Group. The following are the main risk factors identified, analysed, assessed and managed by Saipem management.
These risk factors have been assessed by management for each individual risk in the framework of drafting the half-yearly and, where deemed necessary, the possible liability was set aside in an appropriate fund. See the 'Notes to the consolidated financial statements' for information on liabilities for risks set aside. For a full description of the financial risks, please refer to the 'Notes to the consolidated financial statements - Financial risk management'.

1. Legal risks

Description and impact

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

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

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

2. Risks related to commercial positioning

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

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

3. Risks related to strategic partners

Description and impact
Saipem carries out part of its business in partnerships, on the basis of contracts that include the joint liability of the Company in the event of breaches by partners or through the establishment of joint ventures with partners. Additionally, in some countries where it operates, the Group executes its own development programmes by means of joint venture agreements with local or international operators. In particular, the execution of business activities in partnership is common in the industry in order to strengthen the competitive and commercial positioning in some geographical markets and reference products.
When the client suffers damage due to a breach of contract by a partner, Saipem may be obliged to complete the activities originally assigned to the non compliant partners or to pay damages caused by its partners, without prejudice to the possibility of exercising its right to claim for damages against the non

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

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

4. Risks related to strategic positioning

Description and impact
The definition of strategies implemented by Saipem is based on analysis of macroeconomic and geopolitical scenarios of the relevant markets and the technological developments applied to them. Saipem also operates in an industry strongly characterised by strategic changes, also through the ever greater concentration of competitors via mergers and acquisitions operations and the creation of joint ventures and alliances locally or internationally.
Inadequate forecasts of the evolution of these scenarios, as well as the incorrect or delayed implementation of identified strategies may expose the Company to the risk of not being able to adjust the asset portfolio and therefore competitive positioning to changes in scenarios that are applicable to the reference industry.
Therefore, these risks potentially could result in a deterioration of strategic positioning within the sector, reducing market shares and the Group's margins.
In addition, this context can lead to the risk of concentration on some customers, in some geographic areas or on some products.

Mitigation
In order to ensure a strengthening of the Group's competitive positioning in line with the changing strategies of the industry and the ever-changing competition, Saipem has undertaken the 'Fit for the Future 2.0' programme which developed a divisional business model. Saipem avails itself of companies which are specialised in providing periodic analyses and estimates on relevant market segment trends and on macroeconomic, geopolitical and technological developments.
Furthermore, the Company created the Sustainability, Scenarios and Governance Committee, which is responsible for assisting the Board of Directors in their review and development of scenarios in order to prepare strategies.
To ensure that Saipem's strategic positioning is strengthened, company management pursues business opportunities with a broad focus on the various customers in the energy sector (International Oil Companies, National Oil Companies, Independents, Utilities), with a global perspective on the reference markets and with a broad portfolio of products.

5. Risks related to technological development

Description and impact
The Engineering & Construction, Drilling and high value engineering sectors are characterised by the continuous development of the technologies, assets, patents and licences used therein.
Should the Company be unable to upgrade the technologies, assets, patents and licences required to improve its operational performance, its competitive position could be damaged and as a result cause changes or reductions to its short or long-term objectives.

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

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

6. IT risks

Description and impact

The execution and performance of Saipem's activities depend significantly on the IT system that has been developed over the years. In particular, the Group's IT system is exposed to potential cyber attacks which may have various purposes. Therefore, the non-functioning, ineffectiveness and inefficiency of IT systems can impact on business processes which may have economic and financial impacts and may damage the Company's reputation. Failure to develop innovative IT solutions by the Company could compromise the achievement of short or long-term objectives (more information in the specific 'Information technology' section).
Finally, Saipem will face the challenge and the resulting risks related to the valorisation of data in order to maintain and strengthen its competitive position in the Engineering & Construction, Drilling and engineering sectors with high added value.

Mitigation

Saipem has developed a new transformation project, called IT Adaptive Sourcing, with various objectives including the objective of taking the company through the digital transformation process and the containment of operating costs. To this end, Saipem has selected IT technological and service partners, launching an extensive review of the supply of IT services with the aim of introducing the concept of a supply ecosystem. This ecosystem concept should ensure that Saipem's needs are covered thanks to the effort to cooperate made by the vendors in light of supporting necessary actions both for the single area and for those activities that intrinsically require cooperation and integration.
In addition, Saipem established various IT initiatives for the business environment, focusing on the strategic assumption of developing a data-centric approach for the business and a progressive and complete digitalisation of the company's work processes. In particular, business developments have been oriented towards the automation of processes and the enhancement of company data assets.
Lastly, the Company has established governance activities, as well as compliance and security processes carried out by the IT department making the most of the most advance uses of tested and consolidated IT security technologies and protocols.
They have the goal of preventing and mitigating the risk of security threats regarding data processing by required by company IT systems. Specifically, for the prevention and mitigation of cyber attacks, Saipem relies on IT service vendors to constantly monitor the risk and to use main prevention and defence tools available on the market (more information in the specific 'Information technology' section).'

7. Financial and tax risk

Description and impact

The volatility of market conditions and the possible deterioration of the financial position of clients can cause delays in both payments from the clients for the services provided based on the contractual provisions and acknowledgement and payment of change orders and claims relating to contracts under execution. These cash flow fluctuations may occur despite the fact that the contractor and client cooperate in the search for an agreement that satisfies both parties, with the aim of not compromising the correct performance of works and of not delaying the completion of the project. Therefore, Saipem is exposed to the deterioration of working capital exposing the Group to economic and financial impacts, as well as a deterioration of the reputation in the industry and in the financial markets.
Furthermore, the Group is exposed to numerous financial risks: (i) the market risk deriving from exposure to fluctuations in interest and exchange rates and exposure to the volatility of commodity prices; (ii) the credit risk deriving from the possibility of default by a counterparty; (iii) the liquidity risk deriving from the lack of adequate financial resources to meet short-term commitments; (iv) the downgrading risk deriving from the possibility of a deterioration in the credit rating assigned

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

Mitigation

The Company has equipped itself with various techniques that it implements beginning from the negotiation phase with the aim of obtaining the most favourable conditions, such as contractually agreed advance payments, and of monitoring its contracts through stringent procedures to obtain the certifications necessary to proceed to invoicing, or by constant reporting to the client of all changes to the contract or to project execution, so as to maintain positive or neutral cash flows during the various phases project execution.
The management of financial risks (market risk by exchange rate, interest rate, commodity, credit risk, liquidity risk, downgrading risk) is based on Guidelines issued centrally with the aim of standardising and coordinating the policies of the Saipem Group regarding financial risks (more information in the specific section 'Financial risks').
Saipem constantly monitors changes in tax regulations and compliance with them in order to minimise the impacts due to its operating activities in all countries of interest through internal resources and tax consultants.

8. Risks related to profit margins

Description and impact

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

Mitigation

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

9. Risks related to human resources

Description and impact

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

restore it quickly using equally qualified individuals who can ensure the same operational and professional contribution in the short term.
The breaking off of relations with one of the key figures, the inability to attract and retain highly qualified personnel and competent management personnel, or to supplement the organisational structure with individuals capable of managing the growth of the Company, could have negative effects on Saipem's future business opportunities and projects in the execution phase.
Furthermore, working on international markets, the development of Saipem's future strategies will depend significantly on the Company's ability to attract and retain highly qualified and competent personnel with a high level of diversity in terms of age, nationality and gender. Lastly, the regulatory developments in labour law in the countries where Saipem operates exposes the Company to risks of various kinds in the management of human resources, which can cause internal inefficiencies and disputes.

Mitigation

With the goal of preventing and mitigating these risks Saipem is committed to investing in generational balance, encouraging the development and growth of younger resources, as well as motivating and retaining the most experienced resources, in order to ensure the protection of the distinctive and strategic skills for Saipem through several different initiatives.
In this regard, the Human Resources Development Committee was set up, with the objective of monitoring and guiding the development and career of young people, as well as assessing their professional and managerial paths in a universal manner.
Furthermore the aim of the Remuneration Policy, whose primary tools and objectives are defined in the Remuneration Report, is to attract and retain high-profile professional and managerial resources, and align management's interests aiming at value creation for shareholders in the medium-long term.
Management intends both to pursue greater effectiveness and efficiency and to facilitate the digital transformation process in the management and development of human resources.
The Company has a consolidated process of assessing and mapping skills and cataloguing the experiences of its personnel thanks to its commitment to capitalising on technological investments and the results achieved within the K-Map project.
The continued expansion of the Company into areas and activities that require further knowledge and skills require plans to employ management and technical personnel, both international and local, with different skills.
Therefore, Saipem has developed a resource planning process at the Group level based on available and needed skills.
As defined in the Code of Ethics, in full compliance with applicable legal and contractual provisions, Saipem undertakes to offer equal opportunities to all its employees, making sure that each of them receives a fair statutory and wage treatment exclusively based on merit and expertise, without discrimination of any kind.
In conclusion, the Group monitors the legislative developments relating to personnel management in all the countries in which it operates or is commercially involved in operating, availing itself of labour law consultants.

10. Risks related to the supply chain

Description and impact

In executing its projects, and in the normal course of its activities, the Group relies on numerous vendors of goods and services and subcontractors and in some cases partners.
Any inadequate performances by vendors, subcontractors and partners could generate deficiencies in the supply chain and, consequently, lead to: (i) additional costs linked to the difficulty in replacing vendors the provide goods and services, subcontractors and partners identified to carry out the activities; (ii) the procurement of goods and services at higher prices or (iii) delays in the completion and delivery of projects.
A deterioration in relations with vendors, subcontractors and partners could transform into a competitive disadvantage linked to a reduction in Saipem's negotiating power, with subsequent increases in time and costs, a worsening of contract terms and a deterioration of commercial relations with the client and in the Group's economic results.

Mitigation

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

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

11. Risks related to business processes

Description and impact

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

Mitigation

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

12. Business integrity risks

Description and impact

The Group is subject to the risk of fraud and/or illegal conduct by employees and third parties (for example, corruption, lack of transparency, leaking confidential information, non-compliance with company procedures and regulations). Specifically, Saipem carries out its business activities together with subcontractors, vendors and partners that could commit fraudulent acts in concert with employees to the detriment of the Company. Furthermore, the Group operates in various countries characterised by a high level of fraud and corruption, referred to in the 'Corruption Perception Index' of Transparency International.
In the context of risks related to possible fraud or illegal activities by employees or third parties, Saipem is also exposed, in particular, to risks related to the protection of information and know-how, as the Company in the performance of its activities relies on information, data and know-how, of a sensitive nature, processed and contained in documents, also in electronic format, unauthorised access to which and disclosure of by employees or third parties may represent fraud or illegal activities, as well as causing damage to Saipem.
Lastly, it must be stated that within the Group there can be no non-compliance issues or incorrect application of the European Data Protection Regulation (GDPR), which could result in the application of sanctions to the detriment of the Company.

Mitigation

The Company carries out periodical audits and checks, including with the assistance of external consultants. Furthermore, even if Saipem has constantly updated, within all Group companies, its internal control system, the Model 231 which includes the Saipem Code of Ethics, as well as an organisation management and control model for Group companies (including those in foreign countries), it is not entirely possible to exclude the occurrence of fraudulent or unlawful conduct.
Saipem provides employees and stakeholders with an information channel – overseen by the Compliance Committee in a way that ensures confidentiality – through which it is possible to report any problems related to the internal control system, financial reporting, corporate administrative liability, fraud or other topics (i.e. violations of the Code of Ethics, mobbing, theft, personnel security, etc.).
Further information can be found in the specific detailed section in the Board of Statutory Auditors' Report to the Shareholders' Meeting.
Furthermore, over the years Saipem has developed a management system that has recently been certified for the International Standard ISO 37001 - Anti-corruption Management Systems (published by the International Organisation for Standardisation - ISO), which is an important safeguard in the prevention and fight against corruption, as this ISO 37001 standard defines requirements and provides a guideline to help an organisation prevent, detect, respond to corruption and comply with anti-corruption legislation and any other voluntary commitments applicable to its activities.
For the management of these risks related to the leak of confidential information, it should be noted that Saipem makes use of IT security technologies and procedures to mitigate this exposure (more information in the specific 'Information technology' section).
Lastly, the Company has adopted principles and rules to be followed by the Group in its internal management and external communication of corporate documents and information regarding Saipem, with particular

reference to inside information (more information in the specific section within the 'Corporate Governance and Shareholding Structure Report').
Lastly, beginning in April 2018 Saipem developed an ad hoc Privacy Organisation Model aimed at guaranteeing compliance with the European directive on privacy (General Data Protection Regulation - GDPR).

13. Risks related to health, safety and the environment

Description and impact

The activities carried out by Saipem in both operational projects and projects related to upgrades, maintenance or disposal of assets, using internal staff and/or subcontractors, expose the Company to potential accidents that may cause negative impacts on the health and safety of people and the environment. Additionally, Saipem is subject to laws and regulations for the protection of health, safety and the environment at national and international level when conducting its operations.
Despite the major effort made by Saipem, it cannot be excluded that, in the course of normal Group activities, events that could compromise the health of people or the environment may occur. Furthermore, the occurrence of such events could lead to civil and/or criminal sanctions against the parties responsible and, in some cases of violation of safety laws, to the application of the provisions of Italian Legislative Decree No. 231/2001, with subsequent costs linked to sanctions against the Company and to the fulfilment of legal and regulatory obligations concerning, health, safety and the environment, as well as an impact to Saipem's reputation.
Moreover, in order to execute EPCI projects, drilling services and other services in the energy industry, the Group owns numerous assets, in particular specialised naval vessels (for example, for laying pipelines and lifting structures), offshore and onshore drilling rigs, production/treatment/storage and transport vessels commonly referred to as FPSO, Onshore equipment (for example, for pipe laying), manufacturing yard and logistics bases.
The Group's assets are also subject to the normal risks associated with ordinary operations and to catastrophic risks linked with the weather and/or natural disasters which can impact security and the safety of personnel and the environment. These risks connected with ordinary operations can be caused by: (i) mistaken or inadequate execution of manoeuvres and work sequences that lead to damage for assets or facilities; (ii) mistaken or inadequate ordinary and/or extraordinary maintenance.
Despite the fact that Saipem has specific know-how and competencies, has implemented internal procedures for the execution of its operations and regularly carries out maintenance work on its assets in order to monitor their quality and level of reliability, it is not possible to exclude the occurrence of incidents on assets or facilities during the execution of works.

Mitigation

With reference to these risks, the Company has developed a HSE (Health, Safety and Environment) management system which is in line with the requirements of laws in force and with international standards ISO 14001 and OHSAS 18001, and for which Saipem has obtained certification for the whole Group.
Specifically, HSE risk management is based on the principles of prevention, protection, awareness, promotion, and participation; its aim is to guarantee the workers' health and safety and to protect the environment and the general well-being of the community.
Regarding the risks related to the safety and health of people, Saipem has undergone a series specific mitigation initiatives, among which please note:
- the continuing and renewed implementation of the 'Leadership in Health & Safety' (LiHS) programme, which aims to strengthen the corporate culture in the field of health and safety;
- the campaign dedicated to the 'Life Saving Rules', aimed at promoting awareness of dangerous activities and actions that each individual can have in place to protect themselves and others;
- the development of advanced occupational health and health surveillance activities.

Regarding the risks associated with safeguarding the environment, Saipem has developed a structured system of prevention, management and response to spills.
Regarding the risks related to environmental protection, Saipem has undergone various specific mitigation initiatives, among which please note:
- measures to eliminate the risk of spills and, if this happens, to implement measures and actions to prevent their spread;
- identification of asset-specific maintenance programmes aimed at preventing fluid leaks.

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

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

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

Description and impact

Substantial portions of Saipem's operations are performed in countries which may be politically, socially or economically unstable. Developments in the political framework, economic crises, internal social unrest and conflicts and embargoes with other countries may temporarily or permanently compromise the Group's ability to operate cost efficiently in such countries, as well as its ability to recover Company assets therein, or may require specific measures (where possible in compliance with Saipem corporate policy) to be taken at an organisational or management level in order to enable the continuation of activities under way in conditions that differ from those originally anticipated.
Moreover, Saipem's operations, staff, and assets can be found in many countries which are potentially exposed to the threat of terrorism on a global scale by various types of extremist groups.
Additional risks associated with operations in these countries are: (i) the absence of a stable legislative framework and the change of the rules and regulations valid within the territory where it is operating, including laws that implement international protocols or conventions for that sector of activity; (ii) uncertainty over the protection of the foreign company's rights in the event of contractual violation by private companies or state entities; (iii) penalising developments or applications of laws, regulations, unilateral contract amendments which reduce the value of the assets, forced divestment and expropriation; (iv) restrictions of varying nature on the activities of construction, drilling, import and export; (v) changes in local regulations that impose the use of certain numbers of staff, and goods and services supplied by local companies (so-called local content).
Moreover, amongst other things the regulatory framework also impacts the methods with which Saipem carries out its activities. Any adoption of more restrictive or unfavourable regulations, or the imposition of obligations for compliance, or further requirements linked to Engineering & Construction and Drilling activities, may lead to changes in operating conditions and require an increase in investments, production costs or, at any rate, to a slow-down in the development of activities. Any violations of health, safety and environmental laws could lead to limitations to the Group's activities or to fines, sanctions or penalties in the event of non-compliance with environmental and health and safety laws and regulations.
Lastly, considering that Saipem carries out its business activities in a global context characterised by the management of diversity deriving from socio-economic, political, industrial and regulatory contexts, the Group is exposed to multiple situations regarding relations with staff and, where present, with trade unions. Such relationships, if not properly managed, can expose the Company to risks associated with relationships with personnel and possibly with trade unions which, can generate extra costs and impact the timing of the activities carried out in Saipem's operational offices and projects, as well as having negative repercussions on the Company's image and reputation.

Mitigation

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

In cases where Saipem's ability to operate is compromised, demobilisation is planned according to the criteria of protecting personnel and if necessary company assets and of minimising interruptions to operations through the adoption of solutions that render more rapid and less costly the recommencement of ordinary activities once favourable conditions are restored.
These measures can increase costs and delays and have a negative impact on the margin of projects executed in such countries.
Furthermore, Saipem constantly monitors changes in regulations of a various nature and compliance with them in order to minimise the impacts due to its operating activities in all countries of interest.
Lastly, in support of its presence in the countries and in order to mitigate the impact of its operating activities on local economies and the risks generated by relationships with subjects operating in the same areas, Saipem adopts a system of engagement with its local stakeholders, with the goal of maintaining dialogue and consolidating relationships and creating shared value, especially through active participation in the socio-economic development of the areas in which it operates (more information in the specific section within the 'Consolidated Non-Financial Statement').
In addition, Saipem has faced and is continuing to manage the complex adjustment of the workforce to the significant changes in the market in which it operates and the introduction of a new divisional business model, as well as organisational and procedural changes based on the programme 'Fit for the Future 2.0', taking into account the relationships with both the staff and with trade unions in the countries where it operates.
In fact, in order to mitigate and prevent these risks, Saipem has configured an approach of maximum awareness to industrial relations in the countries in which it operates.
Specifically, Saipem is committed to strengthening relations and communication with staff, trade unions and reaching and renewing specific agreements with the social partners involved (more information in the specific section within the 'Consolidated Non-Financial Statement').

15. Risks related to non financial reporting

Description and impact

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

Mitigation

Saipem has adopted a sustainability model that guides all business processes and is oriented towards excellence and the achievement of long-term objectives to prevent, reduce and manage possible risks.
Saipem adheres to the principles of the Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises and is committed to promoting and respecting the principles set out in the UN Global Compact.
In particular, Saipem annually implements a materiality analysis process aimed at identifying, together with the main external and internal stakeholders, the sustainability aspects of its business that could substantially influence the assessments and decisions of its stakeholders and which are important for the Company itself.
In fact, Saipem has undertaken engagement activities with a transparent and proactive approach by the main international and local stakeholders.
Lastly, Saipem is committed to monitoring the main sustainability performance indicators (more information in the 'Consolidated Non-Financial Statement' and in the 'Sustainable Saipem').

Transfer of risks to the insurance market

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

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

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

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

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

Corporate insurance policies

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

Material damages

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

Third-party liability

- 'Protection & Indemnity' ('P&I') policy: shipowners' liability cover through a P&I Club that is part of the International Group of P&I Clubs for events occurring during transit and/or for events occurring during offshore drilling and construction operations;
- 'Comprehensive General Liability' policy: covers all other types of general and third party liability claims arising from Saipem's industrial activities and supplements previous P&I coverage;
- 'Employer's Liability' and 'Personal Accident' policies: these cover employer liability and employee accident risks respectively on the basis of the specific regulations in force in each country where the Group operates;
- 'Directors & Officers' ('D&O') policy: it covers the responsibilities of the administrative and control bodies, as well as managers, of the Company and its subsidiaries in the performance of their mandates and duties.

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

Insurance policies relating to the execution of projects

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

ADDITIONAL INFORMATION

Renewal of the EMTN Programme

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

Revolving credit line

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

Long-term Monetary Incentive schemes

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

Eni - CDP Equity Shareholder's Agreement

On July 24, 2018, Eni SpA also on behalf of CDP Equity SpA (formerly Fondo Strategico Italiano SpA), has advised Saipem, pursuant to Article 122 of the TUF [Consolidated Finance Law], and Articles 129, comma 2, and 131 of Consob Issuers Regulation, of the automatic renewal, due to lack of termination, of the Shareholders' Agreement signed between the Parties on October 27, 2015, with respect to Saipem SpA ordinary shares.
In particular, the Parties had stipulated that the agreement would last for 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 was automatically renewed for a further three years on the date of its natural expiry, i.e. until January 22, 2022.

Cyber attack

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

Regulation on Markets

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

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

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

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

Disclosure of transactions with related parties

Transactions concluded by Saipem with related parties essentially regard the exchange of goods, the supply of services, the provision and utilisation of financial resources including entering into derivatives contracts. All transactions form part of ordinary operations, are settled at market conditions, i.e. at the conditions that would have applied between two independent parties, and are concluded in the interest of Group companies.
Directors, auditors, general managers and senior managers with strategic responsibilities must declare, every 6 months, any transactions they enter into with Saipem SpA or its subsidiaries, directly or through a third party. Directors and Statutory Auditors release every six months and/or in the event of a change, a statement in which each potential interest is represented in relation to the Company and the Group and in any case report to the Chief Executive Officer (or the Chairman where the Chief Executive Officer is involved), who informs the other directors and the Board of Statutory Auditors of the individual transactions that the Company intends to perform, in which they have direct interests.
At December 31, 2018, Saipem SpA is not subject to the management and coordination of other parties. Saipem SpA directs and coordinates its own subsidiaries pursuant to Article 2497 ff. of the Italian Civil Code.
The value of transactions of a trade, financial or other nature entered into with related parties are illustrated in Note 53 of the 'Notes to the consolidated financial statements'.

Outlook

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

Events subsequent to year end

New contracts

On January 18, 2019, Saipem was awarded two EPCI contracts in Saudi Arabia awarded by Saudi Arabian Oil Co (Saudi Aramco). These two contracts are part of the existing Long Term Agreement, renewed in 2015 and in force until 2021. The two contracts refer to the development of offshore fields in Berri and Marjan, located in the Persian Gulf.
The activities will include the engineering, procurement, construction and installation of subsea systems, the laying of the relevant pipelines, cables and umbilicals and related platforms.
The total value of these new contracts mentioned above are equal to $1.3 billion.

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

Disposals

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

Consob Resolution

On March 12, Saipem informs that Consob, with Resolution No. 20828, dated February 21, 2019, notified to Saipem on March 12, 2019 and adopted following the outcome of the sanctioning administrative procedure launched on April 6, 2018 , has imposed the following administrative financial fines:
- €200 thousand against the Chief Executive Officer of the Company;
- €150 thousand against the manager responsible for drafting the Company's corporate accounting documents in office at the time of the capital increase in 2016.

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

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

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

Secondary offices

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

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

Reclassified balance sheet

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

Reclassified income statement

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

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

All other items are unchanged.

Items of the reclassified cash flow statement

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

- the items 'depreciation and amortisation' (€464 million), 'net impairment of tangible and intangible assets' (€347 million), 'other charges' (-€66 million), 'change in the provision for employee benefits' (€8 million) and 'effect of accounting using the equity method' (€87 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'depreciation/amortisation and other non-monetary items' (€840 million);
- the items 'income taxes' (€194 million), 'interest expense' (€91 million) and 'interest income' (-€6 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'dividends, interests and taxes' (€279 million);
- the items regarding changes in 'trade receivables' (-€272 million), to changes in 'inventories' (€21 million), to 'provisions for contingencies' (-€43 million), to 'trade payables' (-€140 million), to 'other contracts and contract liabilities' (€230 million) and 'other assets and liabilities' (€183 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'changes in working capital related to operations' (€259 million);
- the items 'interest received' (€6 million), 'dividends received' (€4 million), 'income taxes paid net of refunds of tax credits' (-€196 million) and 'interest paid' (-€75 million), indicated separately and included in cash generated from operating profit in the statutory scheme, are shown net under the item 'dividends received, income taxes paid and interest paid and received' (-€261 million);
- the items relating to investments in 'tangible assets' (-€467 million) and 'intangible assets' (-€18 million), indicated separately and included in cash flow from investing activities in the statutory scheme, are shown net under the item 'capital expenditure' (-€485 million);
- the items 'proceeds from long-term debt' (€222 million), 'increase (decrease) in short-term debt' (-€45 million) and 'repayments of long-term debt' (-€349 million), indicated separately and included in net cash flow used in financing activities in the statutory scheme, are shown net under the item 'changes in short and long-term financial debt' (-€172 million).

All other items are unchanged.

GLOSSARY

Financial terms

- **Adjusted EBIT** operating result net of special items.
- **Adjusted EBITDA** gross operating margin net of special items.
- **Beta** coefficient that defines the measure of the systematic risk of a financial asset, i.e. the trend of an asset's return to adapt in line with changes in the reference market. The beta is defined as the ratio between the probability of the expected return of a specific asset with the expected market return, and the variance of the market return.
- **CGU** Cash Generating Unit refers to, as part of the execution of the impairment test, the smallest identifiable group of assets that generates incoming and/or outgoing financial flows, deriving from the continuous use of assets, largely independent from incoming and/or outgoing financial flows generated by other assets or groups of assets.
- **EBIT** (earnings before interest and tax).
- **EBITDA** (earnings before interest, taxes, depreciation and amortisation).
- **Headroom** (Impairment Loss) positive (or negative) surplus of the recoverable amount of a CGU on the related carrying amount.
- **IFRS** International Financial Reporting Standards. Accounting standards issued by the IASB (International Accounting Standards Board) and adopted by the European Commission. They comprise International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretations Committee (SIC) adopted by the IASB. The name International Financial Reporting Standards (IFRS) has been adopted by the IASB for standards issued after May 2003. Standards issued before May 2003 have maintained the denomination IAS.
- **Leverage** measures a company's level of indebtedness, calculated as the ratio between net borrowings and shareholders' equity including non-controlling interests.
- **OECD** (Organisation for Economic Co-operation and Development) composed of thirty-five developed countries having in common a democratic system of government and a free market economy.
- **OPEC** Organization of the Petroleum Exporting Countries.
- **Receivables 'in bonis'** total amount of receivables of a commercial nature, not expired or past due by no more than twelve months, towards customers deemed solvent.
- **ROACE** (Return On Average Capital Employed) calculated as the ratio between the net result before non-controlling interest, plus net finance charges on net borrowings less the related tax effect and net average capital employed.
- **Special items** items of income arising from events or transactions that are non-recurring or that are not considered to be representative of the ordinary course of business.
- **WACC** Weighted Average Cost of Capital calculated as a weighted average of the cost of the company's debt capital and the cost of risk capital, defined on the basis of the Capital Asset Pricing Model (CAPM) methodology, consistent with the specific risk of Saipem's business, measured by the beta of the Saipem share.
- **Write-off** cancellation or reduction of the value of an asset.

Operational terms

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

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

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

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

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

CONSOLIDATED NON-FINANCIAL STATEMENT

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

The 'Consolidated Non-Financial Statement', which is the reporting document on the management of non-financial aspects describing Group policies, the main activities, results and impact generated in the year in terms of indicators and trend analysis.

Reporting methodologies, principles and criteria

This document is the 'Consolidated Non-Financial Statement' (hereinafter NFS) of the Saipem Group as at December 31, 2018, in accordance with Italian Legislative Decree No. 254/2016 and subsequent amendments and additions.
This report has been prepared in accordance with the **GRI Standards: Core option** (see the 'GRI Content Index' section). The Core option requires that all the 33 disclosures in the Organisational profile, Strategy, Ethics and integrity, Governance, Stakeholder engagement and Reporting practice areas are included and that all the requirements contained in the 'Management Approach' GRI standard 103 and all reporting requirements for at least one indicator foreseen by the relevant 'topic-specific' standard are met.
The NFS refers to the **'Director's Report'** and the **'Corporate Governance and Shareholding Structure Report'** with regard to the content treated in detail in the above-mentioned documents and in turn it contains **information that fulfils the obligations referred to in the first and second subparagraphs of Article 2428 of the Italian Civil Code**, limited to the analysis of non-financial information.
In addition to the provisions outlined by legislation, the content of the document has been defined, as established by the provisions of the GRI Standards, taking into consideration the principles of materiality, stakeholder inclusiveness, sustainability context, transparency and completeness. The principles of balance, comparability, accuracy, timeliness, clarity and reliability have been followed to guarantee the quality of the information contained in the document.
The performance indicators, selected on the basis of the **issues identified as material for Saipem** (see the 'Materiality analysis and content definition' section), have been collected on an annual basis. The information and quantitative data collection process has been organised in such a way as to guarantee comparability of the data and analysis of the trends in the three-year period, in order to enable correct interpretation of the information and a full overview for all the stakeholders interested in the evolution of Saipem's performance. Any changes in the collection methods are suitably indicated in the document.
During 2018, Saipem has developed an internal control system over non-financial information to further strengthen the reliability of the overall non-financial reporting system.
Saipem has defined a series of security measures in addition to those already in place, that will have effects on the security of the data and information managed by the company for the purposes, albeit non-exclusive, of this document. These also apply to the reporting systems used so that all technological infrastructures and software are fully integrated in the security systems to protect them against cyber attacks. These measures, under current or future implementation, specifically concern supply chain management and employee health management systems.

Reporting boundary

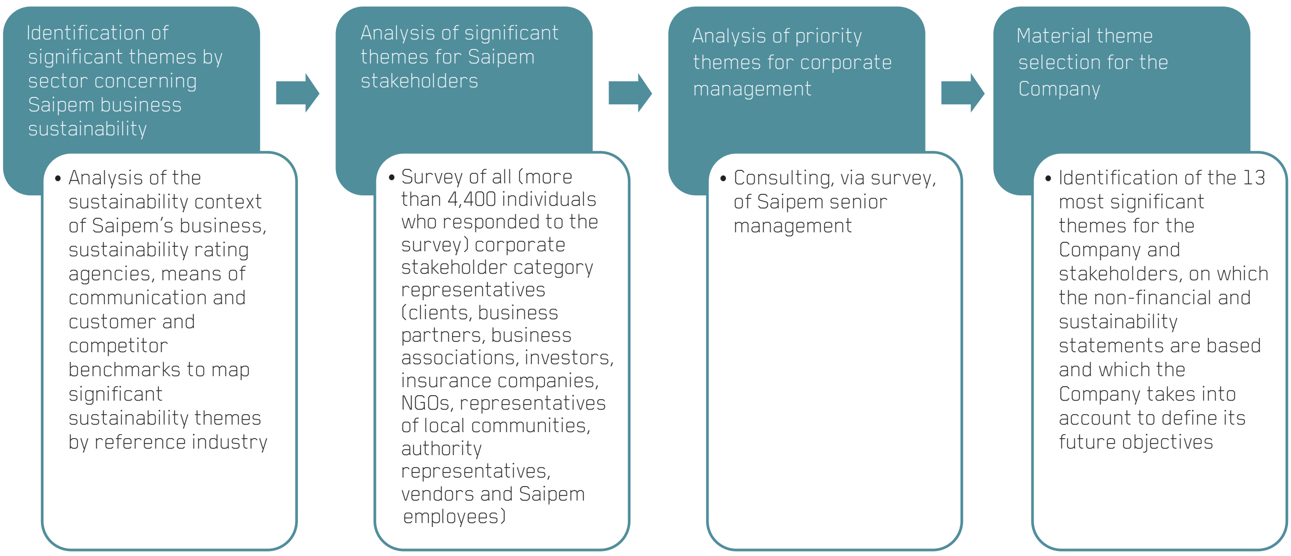
The NFS contains the information and performance indicators for **Saipem SpA and the fully consolidated subsidiaries** in the 'Annual Report', as prescribed by Italian Legislative Decree No. 254/2016. Any changes in the reporting boundary from the previous year are described in the 'Principles of consolidation' section of the 'Annual Report'.
In some contexts there are deviations on the consolidation boundary previously defined, in any case guaranteeing the criterion of significant impact. As of this year, safety data were reported separately for Saipem and subcontractors. Indicators concerning environmental impacts also includes the data for subcontractors operating on Saipem and partner sites in activities where Saipem is responsible for HSE management.
Furthermore, the significance limits for the inclusion of operating sites in the boundary (No. of people on site or, in the case of offices not belonging to Saipem, the type of lease contract) are also defined for these indicators.
Companies that do not have significant activities are excluded from the description on relations with local stakeholders.
In order to guarantee the significant impact criterion set forth by Legislative Decree No. 254/2016, meaning the provision of information required to ensure the comprehension of all Saipem Group activities, its performance, its results and impacts generated, and to guarantee the comparability of the performance with the information published in other corporate documents, in addition to the integrated boundary (called the 'Group consolidated'), **indicators are also**

reported with a more extended reporting boundary, including non-consolidated companies and joint operations, joint ventures or associates, over which Saipem controls operations[1]. These indicators are marked by the wording 'Group total' boundary. For some material issues, the impact of Saipem's activities is manifested beyond the boundary of the organisation. As foreseen by the principle of information completeness defined by GRI Standard 101: Foundation, the organisation is required to report the boundary for each material aspect including both impacts directly caused by its activities and impacts to which it contributes and that are directly associated through business relations to its activities, products and services. For this purpose **and concerning the most significant issues, Saipem reports some significant indicators and information also referred to activities it does not directly manage**. The following table identifies the external boundary by category of stakeholders concerned, also indicating any limitations that impact each material issue.

Material issues	External boundary	Limitations
People safety	Vendors and subcontractors	Partial, for vendors
Safe operations, asset integrity and process safety	Vendors and subcontractors	Partial, for vendors
Anti-corruption and ethical business practices	Business partners, vendors and subcontractors	-
Human and labour rights	-	-
Technology, operational innovation and research	-	-
Training and development	Subcontractors (HSE training)	-
Spill prevention and response	Vendors and subcontractors	Vendors
Ethical supply chain	Vendors and subcontractors	Partial, for vendors
Health and well-being	Some local communities	-
Energy efficiency	Vendors and subcontractors	Vendors
Climate change prevention and GHG emissions	Vendors and subcontractors	Vendors
Security practices	Security service providers	-
Talent attraction and retention	-	-

Materiality analysis and contents definition

The NFS reports those aspects foreseen by Legislative Decree No. 254/2016 concerning the **fight against active and passive corruption, the environment, personnel management, social aspects and protection of human rights assessed as significant and material** according to a process that takes Saipem's specific activities and the interest of all corporate stakeholder categories into account, as described below. As provided for by the GRI Standards and in line with Saipem procedures, the company implements a **materiality analysis** process every year. This is aimed at identifying the sustainability aspects of its business that could substantially influence the assessments and decisions of its stakeholders and are considered significant for the Company itself. The analysis is carried out with the **involvement of representatives from all main stakeholder categories and from the corporate management**. Following is a representation of the process for subsequent work phases.



(1) The 'Group total' boundary includes the following companies for environmental, health and safety aspects (including HSE training): SAGIO - Companhia Angolana de Gestão de Instalaçao Offshore Ltda, Petromar Lda, Saipem Taqa Al Rushaid Fabricators Co Ltd and S.C. TCPI Romania - Tecnoprojecto Internacional Srl is only included for health and safety aspects but not for environmental aspects. The boundary concerning personnel and human rights was extended to include the following companies: Petromar Lda, Saipem Taqa Al Rushaid Fabricators Co Ltd, Charville - Consultores e Serviços Lda, SaiPar Drilling Co BV, TSGI Mühendislik Insaat Ltd Sirketi, ASG Scarl, CEPAV (Consorzio Eni per l'Alta Velocità) Due, KWANDA Suporte Logistico Lda. Regarding the aspects related to anti-corruption, the extension of the boundary concerns the following companies: TSGI Mühendislik Insaat Ltd Sirketi.

The respondents (external stakeholders, Saipem employees and senior management) identified the most important issues, assessing them in accordance with the responsibility principle (issues that the respondent considers must be managed by Saipem as a responsible company) and the value created (economic, social, cultural, reputational, environmental, etc.) for Saipem itself, in favour of its stakeholders, and for civil society in the broadest sense.
The **final materiality analysis results** were **validated by the Sustainability Committee**, that is chaired by the CEO and made up of corporate top management, **shared with the Sustainability, Scenarios and Governance Board Committee and with the Board of Directors**.
The issues that emerged from the materiality analysis become the basis for the definition of the **Saipem Sustainability Plan**, across-the-board for all business lines, that is later taken into consideration for the definition of the four-year strategic plan and specific managerial targets.

LEGISLATIVE DECREE NO. 254/MATERIAL TOPIC/GRI/NFS CONTENT CORRESPONDENCE

Topics required by Italian Legislative Decree No. 254/2016	Saipem material topics	GRI Standard	Saipem 2018 NFS sections	Detailed in other documents
Company management and organisation model Article 3.1, subsection a		GRI 102: General Disclosures 2016	Company management and organisation model.	• Directors' Report 'Human resources, quality' and 'Governance' chapters. • Corporate Governance and Shareholding Structure Report 2018.
Policies Article 3.1, subsection b			In the specific 'Management policies and system' sections of each issue discussed.	Corporate policies are available in the Documentation section on website www.saipem.com.
Environmental topics: - environmental impacts Article 3.2, subsection c - energy and emissions Article 3.2, subsection a; Article 3.2, subsection b - water resources Article 3.2, subsection a	Energy efficiency. Climate change prevention and GHG emissions. Spill prevention and response. Technology, operational innovation and research.	GRI 302: Energy 2016 GRI 305: Emissions 2016 GRI 306: Effluents and Waste 2016	Energy efficiency and GHG emissions. Spill prevention and response.	Sustainable Saipem 2018 'On the side of progress against Climate Change' and 'Guaranteeing safe operations' sections.
Personnel management Article 3.2, subsection d Health and safety impacts Article 3.2, subsection c	People safety. Health and well-being. Training and development Talent attraction and retention. Safe operations, asset integrity and process safety.	GRI 202: Market presence 2016 GRI 401: Employment 2016 GRI 403: Occupational Health and Safety 2018 GRI 404: Training and Education 2016 GRI 405: Diversity and equal opportunity 2016	Safety, Health, Skill and knowledge development.	Sustainable Saipem 2018 'Guaranteeing safe operations' and 'Valuing People' sections.
Social aspects Article 3.2, subsection d	Security practices. Ethical supply chain.	GRI 410: Security Practices 2016 GRI 414: Supplier Social Assessment 2016	Ethical supply chain management. Security practices.	Sustainable Saipem 2018 'Perform as a responsible player' section.
Respect for human rights Article 3.2, subsection e	Human and labour rights.	GRI 406: Non-discrimination 2016 GRI 407: Freedom of Association and Collective Bargaining 2016 GRI 408: Child Labour 2016 GRI 409: Forced Or Compulsory Labour 2016	Saipem people and all subsections. Respect for human rights.	Sustainable Saipem 2018 'Perform as a responsible player' section.
Fighting corruption Article 3.2, subsection f	Anti-corruption and ethical business practices.	GRI 205: Anti-corruption 2016	Fighting corruption.	Sustainable Saipem 2018 'Perform as a responsible player' section.

A description of the risks identified for the five areas of Legislative Decree No. 254/2016 and topics defined as material for the Company, in addition to that indicated in the specific NFS sections, is included in the 'Risk management' section of the 'Directors' Report', for a full description integrated into the overall Saipem Enterprise Risk Management system.

MATERIAL TOPICS/RISKS DESCRIBED IN THE 'RISK MANAGEMENT' SECTION OF THE 'DIRECTORS' REPORT'	Related to strategic positioning	Related to technological development	Related to human resources	Related to the supply chain	Related to business integrity processes	Related to health, safety and the environment	Related to the political, social and economic instability	Related to non financial reporting
Climate change prevention and GHG emissions		■				■	■	■
Energy efficiency		■						
People safety						■		
Safe operations, asset integrity and process safety						■		
Spill prevention and response						■		
Technology, operational innovation and research	■	■	■			■		
Anti-corruption and ethical business practices					■			
Human and labour rights			■				■	■
Security practices						■		
Ethical supply chain				■				
Training and development				■			■	
Talent attraction and retention			■					
Health and well-being							■	

Company management and organisation model

The consolidation process of the divisional organisation model, adopted by Saipem in May 2017, continued in 2018 focusing on an increased divisional autonomy in the continuous **pursuit of maximum business flexibility, improved performance and corporate governance processes and constant adherence to compliance and governance principals**.
The 'towards a new organisational structure' was launched in the second half of 2018 to pursue the full autonomy of the Divisions through a redefinition of the Saipem system of powers and proxies and the update of the Division executive powers, operating models and work processes to avoid the direct involvement of the CEO while strengthening the steering and control role.
The following **main organisational changes have taken place during the year**:
- allocation of the Strategies and M&A departments to directly report to the CEO to support the definition of strategic scenarios and M&A initiatives;
- reorganisation of the Offshore E&C Division, with a strengthening of the role of coordination on the worldwide network and identification of a supervisory board dedicated to Offshore E&C Italy operations management;
- redefinition of the Onshore E&C Division to improve Project organisation and strengthen the sales force;
- fine tuning of the Offshore Drilling, Onshore Drilling and XSIGHT Divisions to maximise the efficiency and effectiveness of project acquisition and execution activities.

Furthermore, the process of aligning the entire Regulatory Framework to the divisional business model and organisational changes that occurred during the year continued along with the worldwide deployment of the organisational structure adopted by each Division to subsidiaries and branches.

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

At the meeting held on March 22, 2004, the Saipem SpA Board of Directors resolved to adopt its own organisational, management and control model pursuant to Italian Legislative Decree No. 231 dated 2001 (hereinafter, 'Model 231'), aimed at preventing the crimes set out by Italian Legislative Decree No. 231 dated 2001.
Subsequently, by means of specific projects, the **updates to Model 231** were approved to incorporate the legislative innovations and the changes in the corporate organisation Saipem SpA.
In particular, the subsequent updates to Model 231 took into account:

- the changes in the corporate organisation of Saipem SpA;
- the changes in case law and jurisprudence;
- the considerations arising from the implementation of Model 231, including indications in case law;
- practices of Italian and foreign companies with regard to the models;
- results of supervision activities and the findings of internal audit activities;
- the evolution of the legislative framework and Confidustria Guidelines.

Finally, also following the removal of the management and coordination of Eni SpA as of January 22, 2016, the Chief Executive Officer-CEO, on July 28, 2016, initiated the programme for implementing the innovations for a review of the structure of the Model 231 and Code of Ethics, which is an integral and substantial part of Model 231, and a general Risk Assessment regarding the crimes set out by Italian Legislative Decree No. 231/2001. The purpose of the activity was to review Model 231 and the document 'Sensitive activities and specific control standards for the Model 231 of Saipem SpA' renamed (in line with best practices) 'Special Part of Model 231 - Sensitive Activities and Specific Control Standards' with the purpose of aligning them with:

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

At the end of these updates, **on January 15, 2018, the Saipem SpA Board of Directors approved the Saipem SpA 'Model 231 (including the Code of Ethics)' and 'Special Section of Model 231 - Sensitive activities and specific control standards'**.
After the various timely updates made over the years, Model 231 of Saipem SpA was also updated, inter alia, in accordance with the following regulations:

- Italian Legislative Decree No. 24 of March 4, 2014, which intervened in the context of the trafficking of human beings and the protection of the victims amending Article 600 of the Italian Penal Code (reduction to or maintenance in slavery or servitude) and Article 601 Italian Penal Code (trafficking of persons);
- Italian Legislative Decree No. 39 of March 4, 2014, which introduced the crime of 'grooming minors' into the crimes set out in Italian Legislative Decree No. 231/2001;
- Law No. 68 of May 22, 2015, 'Provisions related to crimes against the environment' (so-called 'Ecoreati', 'Eco-crimes Act'), which introduces new cases of environmental crime;
- Law No. 167 of November 20, 2017, 'Provisions for fulfilling the obligations arising from Italy being part of the European Union - European Law 2017'. The provision aims to bring domestic regulations in line with EU regulations, also intervening on the liability of legal entities. In regulating the fight 'against some forms and expression of xenophobic racism by means of criminal law', the new Article 25-*terdecies* 'Racism and xenophobia' provides for this as a crime within Italian Legislative Decree No. 231/2001;
- Law No. 179 of November 30, 2017 on 'Provisions for the protection of those reporting crimes or irregularities that they may have become aware of in the context of their public or private employment'.

Corporate Governance

Saipem adopts a system of Corporate Governance that is based on the general and special regulations applicable to the Articles of Association, the Code of Ethics, the recommendations contained in the Corporate Governance Code of the Italian Stock Exchange and best practices on the subject. Saipem's system of Corporate Governance is based on the **central role of the Board of Directors, transparency and the effectiveness of the internal audit system**.
It should be noted that the Sustainability, Governance and Scenarios Committee's is responsible for reviewing the 'Non-financial statement' set forth by Italian Legislative Decree No. 254 dated December 30, 2016, and to provide a preliminary assessment to the Board of Directors to approve this document. For a more detailed description of the governance for the aspects required by Italian Legislative Decree No. 254/2016, refer to the 'Corporate Governance and Shareholding Structure Report', in particular the section 'Sustainability' and the sections regarding the Board of Directors, internal committees and risk management.
The above-mentioned document is present in the 'Governance' section of the Company's website.

Stakeholder relations

The Company strives to continuously involve all bearers of legitimate interests in Saipem as a fundamental aspect of its sustainable business. **Pursuing a constant dialogue and sharing objectives with all stakeholders** are the means through which it is possible to **create reciprocal value**. The approach developed by Saipem over time is designed to ensure open and transparent relations with the parties involved and promote positive and mutually advantageous interactions.
The principles and responsibilities at the basis of Saipem's stakeholder engagement process are defined in the **'Stakeholder Engagement' Management System Guideline**, a corporate

governance tool applied to the entire Group, designed to uniquely define the Saipem Sustainability Model in line with the cornerstones of the Company's Sustainability Policy.
The main issues that have arisen over the year from the stakeholder engagement process consist of the topics considered material. The priorities among these are: **people safety**, anti-corruption and ethical business practices, human and labour rights, spill prevention and response, climate change and GHG emission prevention. In order to meet the stakeholders' expectations on these issues in terms of transparency and the definition of concrete commitments, Saipem provides detailed reporting in this statement and the 'Sustainable Saipem 2018' document.

APPROACH TO STAKEHOLDER ENGAGEMENT

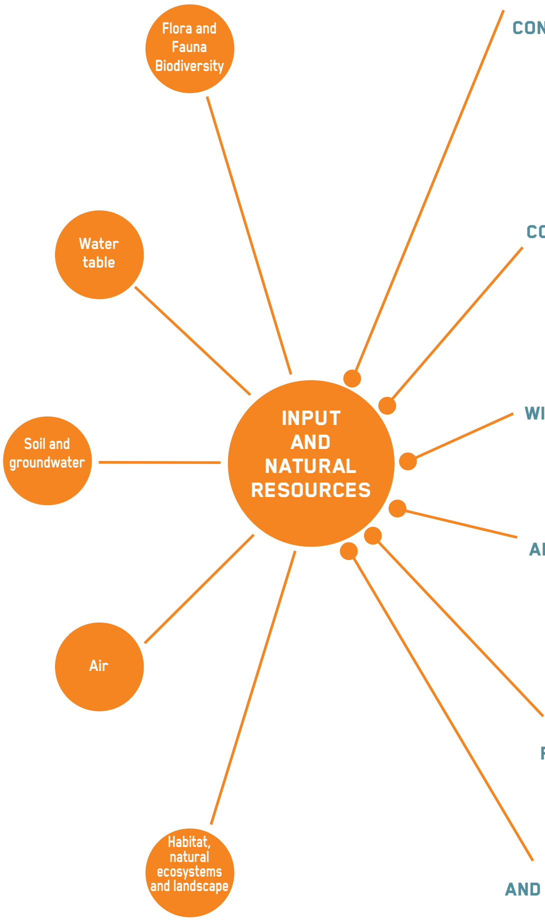
Financial Stakeholders	Clients	Employees	Local governments and authorities	Local communities	Local organisations and NGOs	Vendors	Business associations
Continuous dialogue with the financial community. Commitment to ensuring the utmost transparency and fair access to confidential information. Periodic publication of information through press releases and presentations. Periodic meetings with institutional investors and financial analysts. Individual shareholders can interface directly with the Company Secretary.	Constant reporting and frequent meetings on operating projects. Meetings organised with clients and potential clients also include sustainability aspects. Proactive engagement in HSE initiatives such as environmental awareness campaigns or LiHS (Leadership in Health and Safety) programmes.	Commitment to recruiting and retaining talented personnel and promoting their development, motivation and skills. Guarantee a safe, healthy work environment and stable relations with the trade unions to ensure an open dialogue based on cooperation.	Customised engagement with local governments and authorities. Institutional and official relations with authorities, as well as collaboration with public bodies to launch initiatives in favour of local development projects.	Contribution to progress in local communities in terms of social and economic development and improvement in living conditions. Each operating company or project has a specific approach that takes the Company's role and the specific context into account. Active involvement of local communities in the implementation of local development projects.	Regular publication of information, objectives and results through Saipem's institutional channels. Identification of organisations with proven experience and integrity with which to establish short and medium-term relations in order to facilitate the implementation of specific projects.	Commitment to developing and maintaining long-term relations with vendors. The process of vendor management makes it possible to assess their reliability from technical, financial and organisational capabilities. Proactive commitment in HSE initiatives such as environmental awareness campaigns or LiHS (Leadership in Health and Safety) programmes.	Active participation and support for numerous international and local associations, contributing to sharing 'best practices' within Saipem's business sectors. Contributions to strengthening Saipem's role in its industries and its relations with other stakeholders (i.e. clients, local stakeholders, etc.).

Protecting the environment and minimising environmental impacts

Environmental management system and policies

Saipem is aware that all its activities, from the planning and engineering stages to construction and operation, may potentially have an impact on the environment, both directly and along its business value chain.
In identifying, assessing and managing environmental and social impacts tied to business management, both potential and real, Saipem is guided by international regulations, principles, shared approaches and internationally recognised recommendations adopted in the industry including UN Global Compact principles (especially, principles 7, 8 and 9 that refer to the environment), the principles expressed in the International Finance Corporation Performance Standards on Environmental and Social Sustainability, Organisation for Economic Co-operation and Development (OECD) guidelines for multinationals and the Equator Principles.
As described in the **Saipem SpA HSE Policy**, the Company is committed to preventing the potential impacts caused by its activities and using energy and other natural resources efficiently.

This is why Saipem takes all necessary measures to ensure environmental protection when carrying out its works, both for activities managed directly by its own personnel and using its own equipment and those operations over which it has operational control (customers, subcontractors, etc.) to minimise and correctly manage the significant environmental aspects and impacts that may arise from them. Moreover, Saipem pays the utmost attention to the constant improvement of its environmental performance. In order to ensure these results, Saipem has implemented a **Management System certified in accordance with the ISO 14001 international standard**.
All significant Saipem Group business divisions are ISO 14001:2015 certified to support and guarantee the environmental management system adopted by the Company. Saipem is aware of the real and potential impacts of its activities and defines specific actions and tools required to manage these impacts for each operating context. Furthermore, the Company invests in **research and development programmes to create technologies that minimise the environmental impact of its operations**, and as service to the relevant industry, and organises specific initiatives designed to promote environmental awareness and the dissemination of best practices, also involving external entities as potential addressees of them. Further information can be found in the 'Research and development' section of the 'Director's Report' and the document 'Sustainable Saipem 2018'.



SAIPEM OPERATIONS ENVIRONMENTAL ASPECTS	MAIN OUTPUTS AND POTENTIAL IMPACTS ON THE ENVIRONMENT	POTENTIAL MITIGATION MEASURES
SPILL CONTINGENCIES	• Soil, groundwater and water pollution • Degradation and loss of natural habitats and ecosystems • Flora/fauna disturbance • Biodiversity depletion • Damage to public safety	• Spill management hierarchy: prevention; preparedness; response • Suitable storage areas for oils and chemicals • Hazardous substances inventory • Spill mapping and Risk Assessment • Spill kit availability • Use of environmentally friendly substances • Training and drills
ENERGY CONSUMPTION	• GHG emissions and global warming • Air pollution • Wildlife and flora damages • Loss of natural habitats	• Energy saving and efficiency practices • Use of renewable sources • Energy assessments on critical assets • Periodic maintenance and replacement of equipment and machines • Use of less pollutant fuels
WATER WITHDRAWAL/ DISCHARGE	• Groundwater pollution • Groundwater use • Degradation and loss of aquatic habitats and ecosystems • Flora/fauna disturbance • Biodiversity depletion	• Water reuse and saving practices • Efficient treatment plants • Periodic maintenance
AIR AND DUST EMISSIONS	• Air pollution • Degradation and loss of natural habitats and ecosystems • Flora/fauna disturbance • Biodiversity depletion	• Periodic maintenance and replacement of equipment and machines • Dust control programmes • Pollutant abatement systems • Use of less pollutant fuels • Energy saving and efficiency practices
WASTE PRODUCTION	• Soil overuse • Decreased landfill space • Modification of landscape • Damage to public safety • Direct and indirect impacts connected with improper management	• Waste management hierarchy: reuse; reduce; recycle • Waste valorisation practices • Recycling programmes • Suitable waste storage areas • Efficient waste management equipment • Training of waste management personnel
NOISE AND VIBRATIONS	• Human/wildlife disturbance • Degradation and loss of natural habitats and ecosystems • Biodiversity depletion	• Periodic maintenance and replacement of equipment and machines • Enclosing noise sources • Noise barriers/screens • Proper planning of noisy activities • Use or quieter working methods/technologies

RISKS CONCERNING ISSUES COVERED BY ITALIAN LEGISLATIVE DECREE NO. 254/2016: ENVIRONMENTAL ASPECTS

Saipem material issues	Risks identified by the Company*	Summary of the adopted risk mitigation measures
Spill prevention and response	Environmental pollution	To prevent and mitigate this risk, Saipem has adopted an ISO 14001 certified environmental management system that applies to the Group's most significant divisions from the operational standpoint. Furthermore, the Company employs environmental risk assessment techniques and tools and conducts audits and training and awareness courses for its personnel and main contractors. Finally, the Group has put response plans in place to manage any environmental emergencies.
Technology, Innovation and Operational Research	Failure to exploit of technologies applicable to the Engineering & Construction business (including digitisation)	Saipem is committed to developing and diversifying its portfolio of technologies and patents through significant investment in research and development and to monitor technological developments in the pertinent industries also performing benchmark analyses. A key element of the risk mitigation and prevention strategy is the initiative concerning its incubator of ideas and prototyping laboratory, 'Factory of Innovation', designed to test solutions that respond to the challenges of the industry in which Saipem operates through new technologies (digital first and foremost) and new methods.
	Failure to expand the technology portfolio linked to the de-carbonisation of energy	The mitigation and prevention of this risk is performed by focusing on the development of technologies and patents in the field of the energy de-carbonisation of energy (for example, renewable energy and CO_2 management) through research and development. Moreover, Saipem is committed to continually monitor and further technological developments related to the de-carbonization of energy supplies.
Energy efficiency Prevention of climate change and GHG emissions	Increase in operating costs due to extended applicability of legislation on emissions of greenhouse gases (Carbon Tax or Emission Trading Scheme)	Saipem is committed to constantly monitor the evolution of laws and regulations in the field of greenhouse gas emissions at the international level, in order to mitigate and prevent such risk. In addition, the Group has defined a four-year strategic plan with quantitative targets for the reduction of greenhouse gas emissions, which were applied at both the level of the division and corporate levels.

(*) The water risk is not currently analysed, as does not appear to be a material topic.

Environmental management and results

Spill prevention and response

Pollutant spills are one of the most significant environmental issues for the industry in which Saipem operates. Spill prevention and response actions are an absolute priority for the Company. Saipem operates by **minimising the risk of spills** and adopts advanced equipment and procedures to implement **actions that reduce and manage emergencies**. The Saipem management system is based on the following hierarchy of actions:

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

Further information on the actions taken by Saipem to reduce the risk of spills can be found in the 'Safety for the environment' section of 'Sustainable Saipem 2018'.

		2016		2017		2018	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Number of spills							
Total	(No.)	30	28	26	23	18	17
Chemical spills	(No.)	5	3	8	8	5	5
Oil spills	(No.)	25	25	18	15	13	12
Volume of spills							
Total	(m^3)	4.26	3.01	6.21	6.07	7.22	3.25
Chemical spills	(m^3)	0.71	0.18	3.58	3.58	0.77	0.77
Oil spills	(m^3)	3.54	2.83	2.63	2.49	6.46	2.49

The number of spills compared to the previous year decreased in 2018.
Taking into account the Group consolidated perimeter, the total spill volume equalled 3.25 m^3 over 6.07 in 2017.
The main event was a bitumen spill (1.7 m^3) in the soil from two tanks during lifting operations in the scope of the Tangguh LNG Expansion project (Indonesia). The area was promptly isolated and confined by two containment tanks. A recovery plan was organised.
Considering the more extensive Group total perimeter, the total spill volume for the year equalled 7.22 m^3 due to an oil spill (3.97 m^3) at sea when unloading the FPSO Gimboa cargo ship. The cause was due to a leak from a pipe that was clogged and bent. An emergency stop was promptly implemented and the contaminated zone was subsequently cleaned with a dispersing substance. Further tests were conducted, and passed, on the pipe after this event and the ship was equipped with new pipe for faster and preventive future replacements.

Energy efficiency and GHG emissions

Reducing its emissions, also through the improvement of energy efficiency, is one of the company's environmental priorities.
In 2018, Saipem decided to further organise its policy of reducing GHG emissions by **drafting a specific four-year plan** to outline a corporate vision on the issue of improving the efficiency of its activities and the resulting reduction of emissions.
During the same year the Company also **reviewed the emission estimate method, expanding its boundaries, achieving its certification from a third-party in accordance with UNI EN ISO 14064-3:2012 standards**.
The main changes to the methods concerned:
- review of the emission factors used to estimate emissions;
- inclusion of new gas in the estimate method;
- inclusion in this method, of scope 2: indirect emissions arising from electricity purchases;
- inclusion of scope 3 field of application: indirect emissions related to air travel for business.

The method is applied to calculate both GHG emissions and the following air pollutant emissions: NO_x, CO_2, CO, SO_2, NMVOC, CH_4, PM_{10} and N_2O.
Direct energy consumption increased by 4% in 2018 over 2017 for the Group consolidated perimeter (3% considering the Group total perimeter), in line with the increase in business on some significant operating projects. Sites that experienced the most significant increases in energy consumption over the previous year are listed below: Jazan Integrated Gasification Combined Cycle (Saudi Arabia), Tangguh LNG Expansion (Indonesia), Khankendi vessels (Azerbaijan), Castorone, Saipem 12000, ERSAI Yard. An increase in Diesel consumption over 2017 was experienced with the Jazan Integrated Gasification Combined Cycle project which records the highest consumption for the year and of Diesel Marine Oil consumption, due to an increase of Castorone pipelay vessel activities.

		2016		2017		2018	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Indirect energy consumption							
Electricity	(MWh)	102,343.4	101,083.6	92,309.9	92,307.7	88,996	85,069
Renewable energy							
Electricity produced from renewable sources	(MWh)	305.0	305.0	352.4	352.3	297.6	297.6

It should be noted that the emission factors for the calculation of scope 1 and scope 2 have been updated in the course of 2018 and emission factors for the calculation of scope 3 were defined.

DIRECT ENERGY CONSUMPTION

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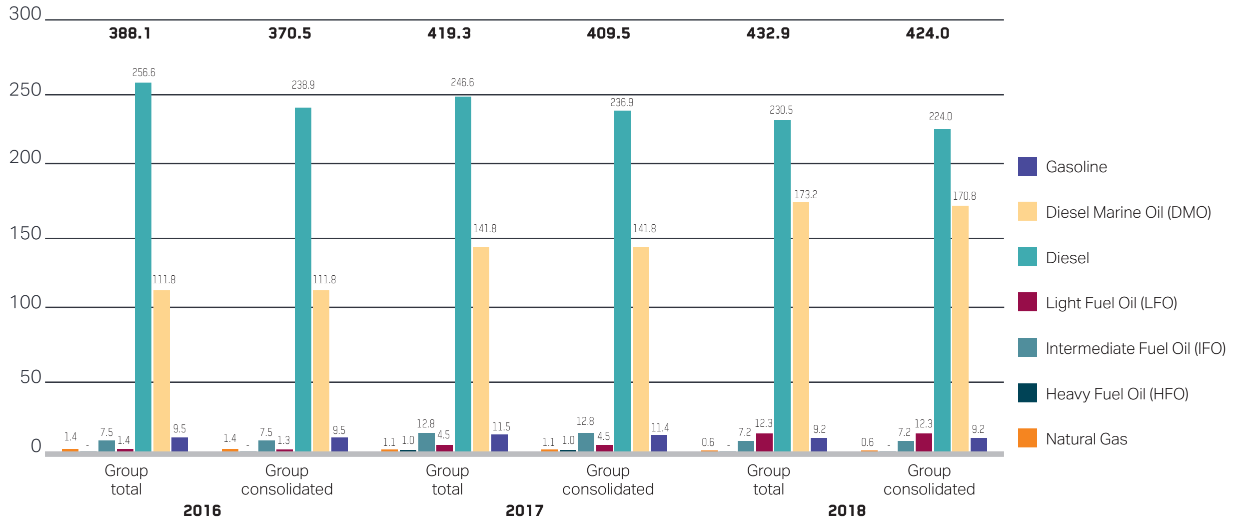

EMISSIONS

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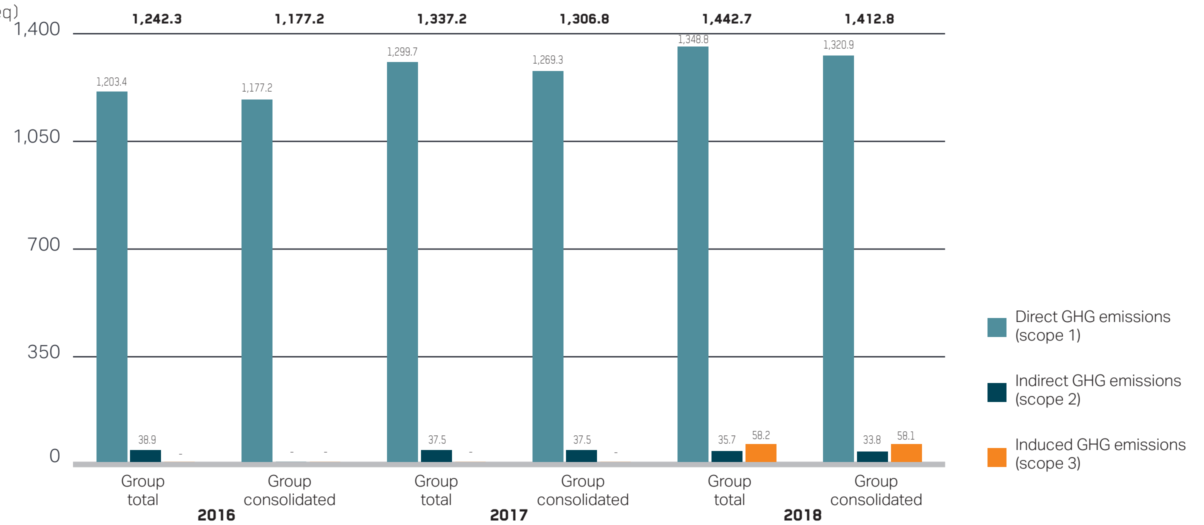
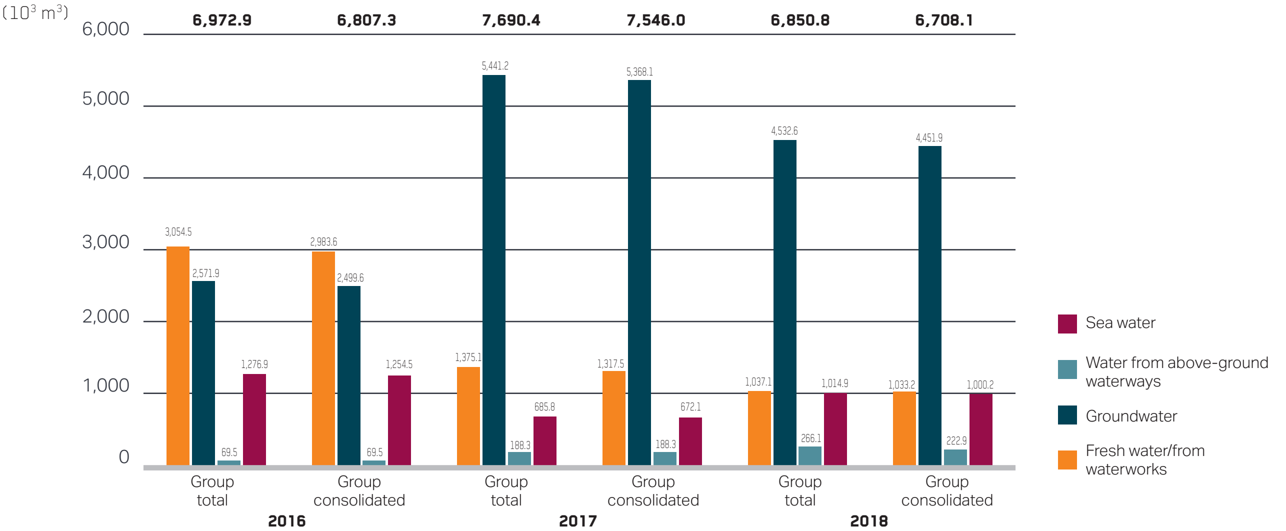


Note: Saipem began calculating scope 3 emissions as of reporting year 2018. Furthermore, it should be noted that scope 2 emissions were not calculated for the Group consolidated perimeter in 2016 since Legislative Decree No. 254/2016 was not yet in effect.

Water resource management

One of Saipem's commitments expressed in the HSE Policy comprises the protection of natural resources. Considering the geographical location of the Company's important operating activities, water is a significant aspect (albeit not identified as a material topic). In fact, Saipem is aware that is carries out important operating activities in areas considered 'under water stress', where the implementation of a strategy to **reduce consumption and use the resource efficiently** is considered a priority.
The **re-use of water**, after suitable treatment, is a key activity to minimise water consumption.
The commitment to responsible management of water resources is transmitted to all company levels through the issue of **annual Group HSE plans**, which are then implemented by the divisions and operating companies.
The reduction of water consumption recorded in 2018, compared to 2017, is mainly due to the altered operational needs of some onshore projects such as, the Cornegliano Laudense gas storage facility (Italy) that is nearing completion, but which had recorded high consumption in 2017 due to a considerable quantity of drain water pumping.
The significant increase in the percentage of re-used water in 2018 is due to its use in activities such as dust control, mainly in sites located in particular geographical areas such as Saudi Arabia: projects which post the greatest increases in re-used water are in fact the Jazan Integrated Gasification Combined Cycle and Khurais AFE and SATGOSP projects. Drained water has decreased more than proportionately to the decrease in water consumed.

WATER CONSUMPTION



Water consumption

		2016		2017		2018	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Recycled and re-used water							
Re-used water	(10^3 m^3)	308.4	308.5	1,179.8	1,179.2	1,641.0	1,640.8
	(%)	4	4	15	16	24	24

Sewage water discharges

(10^3 m^3)	2016 Group total	2016 Group consolidated	2017 Group total	2017 Group consolidated	2018 Group total	2018 Group consolidated
Total dumped water, of which:	**4,858.9**	**4,745.8**	**5,657.0**	**5,536.7**	**4,232.9**	**4,099.7**
- water discharged into the sewer systems	427.7	485.4	642.8	642.8	380.4	377.6
- water discharged into bodies of surface water	2,556.3	2,504.6	3,605.4	3,605.4	2,388.6	2,388.6
- water discharged into the sea	1,142.7	1,023.6	515.4	395.1	729.3	677.3
- water discharged to other destinations	732.2	732.2	893.4	893.4	734.7	656.3

Waste management

The Company implements a responsible waste management system that is specific for the type of operating activities.
Waste management is tackled by applying a hierarchy of operations mainly aimed at **minimising the waste produced** through the use of appropriate procedures or technologies, **re-using it as material and recycling it** after the most appropriate treatment.
Priority is given to hazardous waste in the context of action aimed at minimising waste generation. The company promotes and implements measures, also through the research and development of new materials, which **allow hazardous materials to be replaced with non-harmful alternatives**.
Saipem ensures appropriate waste management though waste management procedures/plans at both operating company level and individual project and site level.

The significant **decrease (11% for Group consolidated and 12% for the Group total perimeter) in waste production**, over 2017, is mainly due to the completion of civil works to the South Stream WP 5.1 project (Russia) for which an enormous amount of soil, rocks and dredging materials had been managed and recycled in 2017 and reported as non-hazardous waste discarded in landfill. Thus, there was a 58% reduction of non-hazardous recycled waste in 2018 for the Group consolidated perimeter (56% for the Group total perimeter). **The increase (12% for the Group consolidated and 9% for the Group total) in the production of non-hazardous waste disposed of in landfills** recorded in 2018 is attributable to the Cornegliano Laudense gas storage plant project (Italy) and the Khurais AFE and SATGOSP projects (Saudi Arabia).
As regards **hazardous waste disposed of in landfills, there was an increase (67% for both perimeters)** due mainly to the activities

carried out in the Karimun yard (Indonesia) and to some onshore projects: Al Zour New Refinery Project, for the quantity of sludge coming from the waste water treatment plant of the new accommodation camp, Rabigh II (Saudi Arabia) for the disposal of used oil.

Furthermore, following the world environment day theme, in 2018 Saipem also implemented specific campaigns with the direct involvement of senior management, as well as further initiatives aimed at collecting and reducing plastic waste.

	2016		2017		2018	
(kt)	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Total weight of waste produced, of which:	**907.6**	**902.0**	**431.3**	**426.0**	**381.5**	**378.6**
- hazardous waste disposed of in landfill sites	36.1 (*)	36.0	61.2	61.1	102.2	102.1
- incinerated hazardous waste	1.6	1.5	2.3	2.3	4.2	4.2
- recycled hazardous waste	18.7	18.3	6.9	6.9	3.5	3.4
- non-hazardous waste disposed of in landfill sites	140.0 (*)	135.6	172.4	168.6	188.3	188.2
- incinerated non-hazardous waste	3.0	3.0	3.6	2.6	2.7	2.7
- recycled non-hazardous waste	708.1	707.4	185.0	184.6	80.6	78.2

(*) These data have been modified against the previous year because of a recalculation.

Social aspects

Social policies and management

The Company operates in over 60 culturally and geographically different and distant countries often in contexts characterised by difficult situations and border issues, each characterised by issues that the Company takes into account when assessing social aspects linked to its activities.
Saipem uses **social-economic impact evaluations and studies** supplied by its clients or, if necessary, produced in-house. The operations where Saipem has direct responsibility for the impacts generated at local level concern the fabrication yards or proprietary logistic bases. In these cases, Saipem identifies and assesses the potential effects of its activities and actions in order to ensure that they are managed appropriately, as well as any specific activities and projects aimed at developing the local socio-economic context working with the identified local stakeholders.

SOCIAL ASPECTS	CULTURE AND LIFESTYLE	DEMOGRAPHICS	WELFARE AND SOCIAL INFRASTRUCTURES	ECONOMIC IMPACT
MAIN SOCIAL IMPACTS	- Erosion of traditional values and customs - Increase in the social problems of some vulnerable population groups - Discrimination and marginalisation of indigenous people - Risk of conflict and local unrest	- Immigration due to the attractiveness of the geographical area of the site - Emigration/relocation due to the traditional use of natural resources competing or conflicting with project activities	- Effect on local facilities and public health - Effect on traffic and road safety - Access to social infrastructures	- Increase in direct and indirect employment and in wage levels - Increase in prices of goods and inflation rate - Purchasing of local supplies and boost in general local economy - Changes in local economic structure - Increase in dependency of the local economic system on a specific industrial sector
POTENTIAL MITIGATION MEASURES	- Cultural Heritage protection plan - Proper selection of security providers - Drug and alcohol testing of the workforce - Cultural awareness sessions and human rights training programmes for employees	- Transparent recruitment strategy - Management of local expectations	- Health promotion initiatives - Safe driving awareness sessions	- Transparent recruitment and hiring strategy
TOOLS ADOPTED	**Stakeholder consultation, community grievance mechanism and local community relations plan**			

Analysis of the context	Identification and assessment of potential impact	Identification and implementation of mitigation measures
Analysis of the socio-political, cultural and economic conditions of the area interested by the project.	Identification and subsequent evaluation of the impacts occurring during the entire life of the project. The impacts can be classified as: - direct impacts: that are a direct result of project activities; - indirect impacts: that result from other developments or activities that would only occur as a result of the project.	The purpose of adopting mitigation measures is to remove, minimise and/or compensate residual adverse effects to a reasonably feasible extent. Mitigation measures could consist of the integration of proposed actions into the design of the project, changing or adding technical or managerial aspects. Mitigation actions could include activities to be implemented both within the project site and in neighbourhood areas.
STAKEHOLDER ENGAGEMENT PROCESS		

Particularly in the countries where the company's presence is medium/long term, Saipem has established a lasting relationship of **mutual collaboration with the local stakeholders**. Some significant examples are the collaborations with universities and schools, representatives of local institutions, non-governmental organisations active in the areas and local bodies for development programmes and the promotion of health.
In addition to what is detailed in this document, Saipem provides a thorough description of stakeholder engagement actions in a specific section ('Stakeholder engagement in 2018') of the 'Sustainable Saipem 2018' document. Saipem is always committed to minimising any negative impacts at the local level and contributing to maximising positive impacts through the implementation of **strategies that support sustainable local development**. The overall risk profile (including the social one) for every project is identified, analysed and monitored from the commercial phase. An important tool is listening to the demands of the local stakeholders, also by means of consolidated engagement processes. In particular, for the management of negative impacts, the Company has drawn up a principle (**Guidance on Grievance Management**) for structuring a system to collect and manage the demands of the local communities in the operating businesses where it is considered necessary. This process allows potential negative impacts on the Company to be identified, managed or mitigated.
Different geographical bases (e.g. Nigeria, Azerbaijan, Italy, Russia) and some of the more significant operating businesses (e.g. Tangguh LNG Expansion) have implemented such systems to ensure effective communication with the communities.

RISKS CONCERNING ISSUES COVERED BY ITALIAN LEGISLATIVE DECREE NO. 254/2016: SOCIAL ASPECTS

Saipem material issue	Risks identified by the Company	Summary of the adopted risk mitigation measures
Management of an ethical supply chain	Fraudulent activity, corruption, lack of transparency, loss of confidential information and data, and non conformities with procedures and regulations.	Saipem updates its organisation, management and control model pursuant to Legislative Decree No. 231/2001 (hereinafter, 'Model 231'), which is aimed at preventing the possible offences sanctioned by this legislation; 'Model 231' includes the Saipem Code of Ethics, which contains the set of rights, duties and responsibilities addressed to Model recipients. In addition, Saipem is engaged in training activities on ethical issues, including anti-corruption, and on updates to 'Model 231'. The Company has developed an anti-corruption management system that has recently obtained certification of compliance with the international standard ISO 37001. Lastly, the Group has a monitoring and control system in place for vendors who may engage in fraudulent activities, possibly evaluating their suspension.

Social aspect management activities and results

Relations with the local context

Saipem is committed to establishing relations with its local stakeholders based on fairness and transparency in order to pursue **concrete shared objectives for sustainable development**. This is also achieved by strengthening mutual trust, seeking dialogue and promoting the right conditions in order to establish lasting cooperation in the countries where the Company operates.
Wherever it operates, Saipem contributes to the social and economic life of the territory, also and not only in terms of local employment and creation of value.
Saipem's relations with local stakeholders therefore depends on the type of operating presence in each particular area.
This presence is divided between **long-term presence**, where the Company owns fabrication yards or other operating structures that allow complex relations and partnerships with various local stakeholders to be established; and **short/mid-term presence**, where Saipem is involved in a specific project within set contract deadlines in which Saipem participates in more targeted and short-term sustainable development initiatives.
Saipem's involvement and dialogue with local stakeholders therefore depends on the type of presence in each particular area, contract requirements set by clients on projects and local partners.
Where Saipem intends to create new, long-term work sites, the Company carries out specific assessments designed to analyse the potential effects of its activities on the local socio-economic context. To achieve this goal, it uses tools such as the **ESIA (Environmental Social Impact Assessment), based on which the Company defines action plans to manage the impacts on local communities and stakeholder engagement**. To support this process, Saipem has implemented specific tools for analysing the local context and for the identification and analysis of the main stakeholders for the purpose of defining action plans.
In operating projects, Saipem supports the client's activities, in line with contract requests and requirements the latter received and/or agreed with local authorities through specific studies such as EIA (Environmental Impact Assessment) or also using, in this case, ESIA (Environmental and Social Impact Assessment).

Local presence

For Saipem, being present locally means **acquiring goods and services from local vendors, creating employment at a local level and developing the know-how of the local personnel and vendors**, strengthening their technological and managerial skills.
In this way Saipem contributes to creating development opportunities for the people and companies in those communities where it operates. Saipem's presence is also characterised by a commitment to developing and maintaining a continuous relationship with local communities, clients and local vendors making it possible to obtain benefits also in terms of reductions in overall project costs and the overall risk profile associated with operational activities.
Saipem has developed internally a model (**SELCE, 'Saipem Externalities Local Content Evaluation'**) to quantify the value of its presence locally in economic, employment and growth of human capital terms.
The SELCE model was validated in 2015 by Nomisma Energia in its application to the Italian context.

Local employment

	2016		2017		2018	
(%)	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Local employees	80	78	76	74	73	71
Local managers	45	44	46	45	45	44

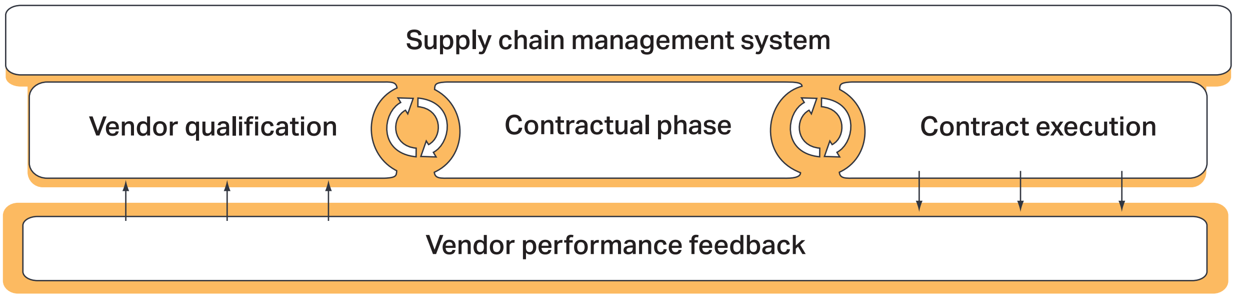
An employee is considered local if he/she works in the country where he/she was hired. Local manager means the total of the middle and senior managers. The percent of local managers is calculated excluding data from France and Italy.

In 2018, local personnel stood at 71% (73% in the Group total perimeter), a figure that saw a reduction against the previous year mainly due to the reduction or conclusion of the operating activities in projects where the personnel was mainly local. The percentage, despite the slight reduction, remains very high and concretely demonstrates Saipem's constant commitment to creating value in the areas where it operates. This occurs through the employment of local personnel and the strengthening of their managerial and technical competence and skills through training and on-the job experiences.

Management of an ethical supply chain

Saipem has more than 23,000 first-tier vendors, of which approximately 7,000 qualified during the year. From a numerical point of view, the main geographical areas

where the Company's vendors operate are Europe and the Americas. In 2018, the geographical areas in which Saipem ordered the most significant amount of goods and services were Europe and the Middle East.
Saipem selects partners that share the same values and makes them active participants in the risk prevention process (ref. Policy 'Our partners in the value chain'). In over 60 years of operating in most of the countries around the world, Saipem has created a consistent and profitable network of partners and vendors; **over 5,000 vendors have worked with Saipem for more than 10 years**.
Saipem is committed to conducting relations with vendors in accordance with the highest ethical standards, in compliance with all the applicable laws and the Code of Ethics, safeguarding its own reputation and that of its subsidiaries.
The Company has identified **aspects of sustainability** that have been identified as **priorities in the management of its supply chain**, which concern the ethical nature of the vendor, respect for human and labour rights, and protection of the environment and the protection of its workers in terms of health and safety.
These aspects are integrated into the supply chain management system, which is composed of several interrelated phases, as outlined and described below.



Vendor qualification

From the point of view of **human and labour rights**, vendors operating in countries classified as high risk on these themes are analysed on the basis of the information and documents that they submit during the qualification phase. Similarly, for certain commodity codes considered high risk from a health and safety point of view, an ad hoc assessment is carried out to **assess the vendor's HSE management system** and its ability to manage these issues.
Moreover, for specific commodity codes, vendors undergo a **counterparty risk assessment process**. This includes an analysis of its **capabilities in economic, financial and organisational terms**, as well as a risk assessment with regard to **corruption, illegal conduct** and any other aspect that could directly harm the vendor's reputation and, indirectly, the reputation of Saipem. This is ensured through in-depth checks, which include the involvement of the vendor in any type of criminal offence or terrorist activity, the structure of its control chain, the management and Board of Directors/owner in order to ensure compliance with Saipem anti-corruption guidelines.
Based on the vendor's critical nature, the qualification process can require verification of its activities in loco, as well as its technical, managerial, production, quality, HSE and logistics capabilities.
If operating in **high risk countries**, the vendors may undergo on-site **verification regarding labour rights**. The verification concentrates on the following issues: child labour and forced labour, freedom of association and right of collective bargaining, salaries, working hours, discrimination, disciplinary measures, health and safety.

Contractual phase

The general contract conditions negotiated by Saipem include all the main requirements that cover sustainability topics.
Vendors state that they have received and acknowledge the contents of the **'Sustainability Policy'** whereby Saipem undertakes to act as a sustainable Company and contribute to the long-term growth and value creation through the effective involvement of all stakeholders.
Moreover, vendors working with Saipem SpA are required to accept **Model 231, which includes the Saipem Code of Ethics**.
Similarly, vendors working with the subsidiaries of Saipem SpA must accept the Organisational, Management and Control Model (OM&C Model) and the Code of Ethics.
When the value of the supply for specific activities, services and materials exceeds a predetermined amount, the specific vendor is subject to a counterparty risk assessment.
For specific commodity codes considered as high risk for HSE, Saipem conducts a specific assessment in terms of the vendor's ability and organisation to perform the contract according to international workers' protection standards. Subsequently, specific requirements are defined in the contract based on the type of service the vendor provides.

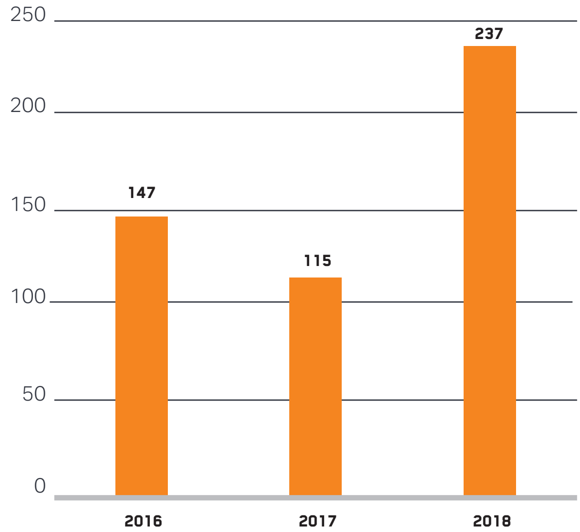
Contract performance and vendor feedback

Vendor performance is continuously monitored and Saipem's relevant functions are also asked to provide **feedback** regarding **respect for workers' rights and the protection of health and safety** (e.g. occurrence of accidents/injuries during work execution, compliance with applicable HSE legislation and contractual specifications, existence of legal proceedings for serious violations/offences).
The feedback received guarantees the assessment of the vendor's overall reliability and **the possibility of interrupting or suspending the qualification in the event of serious situations encountered**.

		2016	2017	2018
Active vendors	(No.)	29,959	26,345	23,845
Qualified vendors	(No.)	6,571	6,918	7,026
Vendors qualified in the year which operate in countries at high risk of violating human and labour rights	(%)	60	59	40 (*)
New vendors assessed on labour rights	(No.)	106	94	174
Vendors qualified in the year for activities considered at HSE risk	(%)	6	4	7
Vendors assessed on HSE aspects	(No.)	385	278	466 (**)
Qualification audits, of which:	(No.)	46	62	28
- on human and labour rights	(No.)	6	14	10

It must be stated that the numbers in the table are representative both for the total perimeter of the Group total and the Group consolidated perimeters, because a qualified vendor at corporate level can potentially work with all the businesses in the Group.
(*) For a more transparent representation of the indicator, as of 2018 it is calculated on the number of qualified vendors, rather than on the number of completed qualification processes.
(**) The methodology was changed from the previous year due to a methodological refinement that allows for a more accurate representation of the indicator.

PARTICIPANTS IN TRAINING ON SUSTAINABLE SUPPLY CHAIN
(number)



Saipem people

People policies and management

As described in the Policy 'Our People' on the management of human capital 'people are the indispensable and fundamental element for the very existence of the business and company objectives can only be achieved with their dedication and professionalism'.
The **professional knowledge** of our people is fundamental for sustainable growth and an asset to be safeguarded, valorised and developed. Developing a **knowledge-sharing culture** is a primary means to consolidating the wealth of acquired knowledge and experience.

Risks associated with human resource management

RISKS CONCERNING ISSUES COVERED BY ITALIAN LEGISLATIVE DECREE NO. 254/2016: PEOPLE MANAGEMENT

Saipem material issue	Risks identified by the Company	Summary of the adopted risk mitigation measures
People safety	Accidents in the course of operational activities that can cause injuries and even the death of Saipem employees or vendors and subcontractors' staff.	Saipem is committed to both preventing and mitigating these risks through specialised training programmes dedicated to employees, as well as to its vendors and subcontractors, on technical topics and on work safety with the aim of ensuring high quality standards in training. Furthermore, the Company is involved in numerous initiatives, such as the 'Leadership in Health & Safety' programme (LiHS), the campaign dedicated to 'Life Saving Rules'. Finally, the most significant Group entities from the point of view of operations are OHSAS 18001 certified.
Safe operations, asset integrity and process safety	Critical issues related to political, social and economic instability and terrorist threats to staff, operations, business and assets.	The Group is involved in the constant monitoring of various critical issues (in particular political, social, economic) and terrorist threats in verifying the adequacy of the mitigation measures in place, making use of an intelligence network and actively cooperating with the police forces and security service providers in the countries where it operates. In particular, Saipem has developed security plans and a crisis management system. Finally, the Group pursues a commercial strategy with strong project selectivity, also taking into consideration the risks associated with the country of operations.
	Significant accidents to Saipem's strategic assets or customer infrastructures.	To mitigate and prevent this risk, Saipem incurs significant expenses for the maintenance of its assets and has developed various prevention initiatives, including the application of the Asset Integrity Management System and the development of Safety Cases, as well as the specific training for technical personnel.
Health and well-being	Damages of exogenous and endogenous origin to staff health (for example, legionella, malaria, rabies, etc.).	The Group has set up a programme for defining, implementing and monitoring health facilities and physicians responsible for managing personnel health, with the aim of avoiding and mitigating these risks. Furthermore, Saipem carries out training and awareness-raising initiatives on health issues, continuously monitors the health situation and has developed tele-medicine programmes in the countries where it operates. In the event of serious consequences for the health of personnel, Saipem has a system for managing medical emergencies and repatriation in the case of patients in critical conditions.
Training and development Talent attraction and retention	Loss or lack of key skills.	Saipem periodically plans human resource needs based on business objectives, taking into account available and necessary skills with a particular focus on key skills and ensuring an effective distribution of personnel within the Group (also on the basis of job rotation programmes). Furthermore, the Group organises various training programmes on critical business skills and has developed a structured methodology for career paths and compensation systems (e.g. long-term incentives).

People management and results

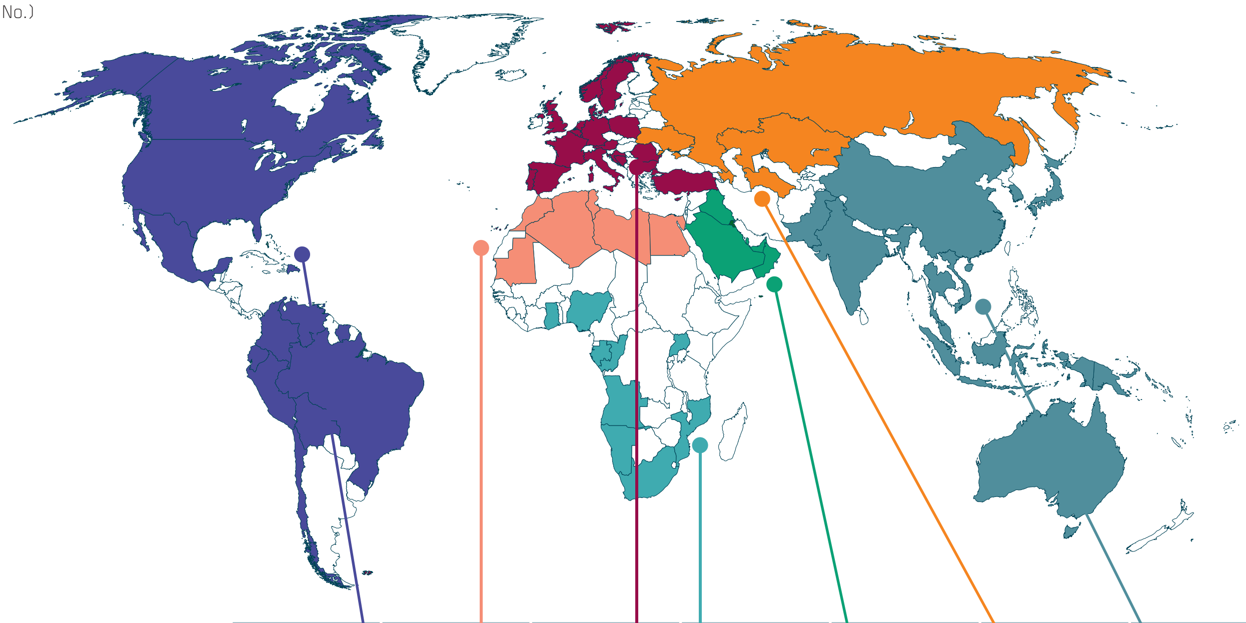
Workforce trend

		2016		2017		2018	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Total employees at period end	(No.)	40,305	36,859	35,918	32,058	34,129	31,693
Employee categories							
Senior Managers	(No.)	399	396	398	393	385	380
Managers	(No.)	4,276	4,149	4,190	4,089	4,187	4,091
White Collars	(No.)	18,496	16,721	16,642	14,971	16,633	15,323
Blue Collars	(No.)	17,134	15,593	14,688	12,605	12,924	11,899
Type of contract							
Employees with full-time contracts	(No.)	40,060	36,615	35,686	31,826	33,906	31,470
Employees with key professional role	(No.)	14,991	14,161	14,177	13,154	14,123	13,468
Employees recruited through an employment agency	(No.)	5,643	4,403	5,829	4,111	7,380	6,869
Turnover							
Voluntary turnover of resources with key professional role	(%)	8.3	-	6.6	6.2	7.3	6.6
Total turnover	(%)	40	-	35	36	31	27

The total turnover is calculated as the ratio between annual exits and the average resources in the year. Voluntary turnover of resources with a key professional role is calculated as a ratio between all the annual voluntary exits and the average of the resources that cover a key professional role.

EMPLOYEES BY GEOGRAPHICAL AREA

(No.)



		Americas	North Africa	Europe	Sub-Saharan Africa	Middle East	CIS	Far East
2018	Group total	2,477	911	10,066	4,886	10,645	2,110	3,034
	Group consolidated	2,477	911	9,590	3,713	9,859	2,109	3,034
2017	Group total	1,849	669	10,283	5,589	11,472	2,743	3,313
	Group consolidated	1,849	669	9,621	4,554	9,571	2,481	3,313
2016	Group total	3,083	1,268	9,962	6,637	9,219	3,169	6,967
	Group consolidated	3,083	1,261	9,249	5,197	8,177	2,925	6,967

The **workforce in 2018** decreased compared to 2017 due to the conclusion of some projects and the reduction of operations mainly in Nigeria (Southern Swamp Project), Indonesia (Karimun Yard) and Saudi Arabia (Jazan Project). This reduction was partially offset by the increase in activities related to the development of projects in Chile, relating to the Onshore E&C (Spence Growth Project) business, and the increase in international resources on board vessels with regard to the Offshore E&C business.

The overall turnover rate in 2018 experienced a reduction compared to 2017 and was 27% (31% for the Group total perimeter); a value which, although decreasing, remains at a significant level due to:

(a) the extremely dynamic situation in the Oil & Gas market, which led to a reduction in operating activities, following a significant decrease in investments in the sector;

(b) the nature of Saipem's business which, being a contractor, works for large-scale projects that have variable durations (from a few months to years). Taking into account these peculiarities, the quali-quantitative size of Saipem's human capital is therefore subject to a natural fluctuation connected with the different operating phases of projects and the cyclical nature of customers' investment.

The increase in agency personnel was influenced in particular by the operating activities implemented in the Ersai yard, for the EPC Khurais (Saudi Arabia) project, for Maintenance Modification and Operation projects in Congo and for the DS6 debottlenecking project of the West Qurna field (Iraq).

Skills and knowledge development

By the way it operates, the Company has demonstrated that **skills are a priority** and that their importance is a distinct and distinctive characteristic of Saipem which provide a competitive advantage in the reference market. In line with the evolution of the business scenario, a programme was launched in 2018, which provided for the revision of the HR strategy, considering skills as a key driver of all processes.

In line with the HR strategy aimed at safeguarding and enhancing distinctive skills – which focuses on the Saipem resource intended as the bearer of a set of critical business skills and extended experiences gained over the course of their working life – a **Strategic Workforce Planning process**, was developed, supporting and integrating the consolidated HR Planning process, focused on **core professional roles** (defined by correlating the impact and severity that these roles have on Saipem's activities with aspects of replacement complexity) and closely linked

to the indications contained in the Saipem Strategic Plan. The output of the process makes it possible to monitor the actual needs and the level of coverage of these professional roles and to monitor the level of company skills for the next four years in order to be able to adequately set the most appropriate actions to be taken to satisfy the needs that emerged in terms of market recruitment or actions to develop and train internal resources.
The process has also provided for the **updating of the professional skills** that Saipem monitors and assesses, also to integrate them with the capabilities required by the innovation and digital transformation that Saipem is facing, as well as those deriving from the prospective businesses of interest for Saipem. As a result, professional roles have also been updated.
The initiatives undertaken in terms of **development and growth of the youngest resources and as a transfer of skills guarded by the most expert resources**, have focused on:
- attraction of new talent from the labour market with the aim of generational turnover;
- introduction of new ways of transferring knowledge between people of different generations;
- improving managerial skills in growing resources through training and targeted development actions.

The objective of strengthening the attraction as a source of generational change was also pursued through a **Graduate Programme**, which allowed Saipem to reach young students from the best Italian universities by selecting undergraduate and graduate students to be introduced through an internship. About 3,000 candidates went through a very strict selection process at the end of which talented young people were selected to embark on a professional experience in Saipem.
Furthermore, in 2018 the individual Divisions successfully implemented additional recruitment actions from the external market in Italy and in the main foreign hubs. This was both for new resources to grow internally and for critical professional roles, and with long training times (for example the orientation path of 10 Vessel Equipment Engineers for the Offshore E&C Division, and the Young Graduate programme for the Onshore E&C Division).
In line with attraction objectives aimed at increasing the employability of young students and creating a pool of excellence for the selection of young experts and technicians, the Company confirmed its commitment to the **Synergy Programme**. This programme places Saipem on the front lines as an ally of scholastic and territorial institutions to support the training of students in internship programmes. In addition to confirming the well-established commitments with the Volta of Lodi and Fermi high schools in Lecce, Saipem has expanded its programme through the involvement of new institutes present in regions of interest to the business. Starting from the 2018-2019 school year, ‘teachers of the trade’ will return to school as instructors at the ISII Marconi of Piacenza and the IANAS and ITI institutes of Tortolì to promote skills in the fields of Drilling and Fabrication.
The transfer of knowledge is an essential process for Saipem that is realised not only by supporting the motivation of the most expert resources through the tutoring of the youngest resources, but also by creating the organisational conditions so that the young people can share their knowledge, such as those in the digital environment.
The exchange of knowledge and skills between different generations was therefore strongly encouraged through various initiatives, including **Reverse Mentoring**, which provided for the sharing of knowledge and skills between people with different seniority in terms of mutual exchange.
The initiatives aimed at spreading the **Leadership Model, the reference paradigm for all Saipem resources,** continue.
The Company has developed various induction, monitoring and personal development programmes, also with the aim of spreading a unique message of corporate identity and culture.
In 2018, new development and assessment tools for the behavioural skills of the Leadership Model were designed and updated. In particular, with the objective of assessing personal abilities and addressing training and development actions in the best possible way, **the potential assessment process for young talents was reviewed**.
The training course, completed in June 2018, dedicated to Saipem Senior Managers and carried out together with the MIP - Milan Polytechnic, represented a further opportunity to further the Leadership Model. The course included a ‘blended’ delivery method, e.g. alternating classroom sessions with lectures provided on-line through a dedicated platform.
During 2018, activities were initiated pertaining to the **Managerial Academy**, training initiatives, institutional and transversal with respect to the businesses, designed with the aim of increasing the wealth of managerial and behavioural skills of the people, thus supporting their development and professional career path. Each training course was organised with the aim of enhancing one or more behavioural skills linked to one of the six pillars of the Saipem Leadership Model.
In this field of activity, **the training initiative ‘Communication skills - Be a Leader’**, gained particular significance. The course

represented an opportunity for participants to develop and consolidate their communication skills, and was promoted with the desire to support Saipem Managers in their responsibilities for managing and developing people, and more specifically in the activities of communication and dissemination of company guidelines.
During the year, **specific training projects were also developed dedicated to the development of critical professional technical skills**. For example, training courses dedicated to **renewable energy and related technologies** have been developed within the XSIGHT Division. In the same divisional context, new training activities based on the **gamification** methodology were also tested.
In line with the objectives of monitoring skills and creating development opportunities for young people, the **Succession Plan methodology was updated** based on three main drivers: generational turnover, cross fertilisation of Saipem's businesses and mapping of the technical and managerial skills needed to fill target positions in the future.
The annual process of updating the succession tables concluded with an analysis of the risk areas on which it is necessary to intervene and plan the necessary actions.
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 particular, the Committee verifies the response of the resources to the requirements of the Leadership Model and promotes career plans and inter-departmental and inter-divisional mobility, enhancing young talents in order to create value for the entire company.
With the aim of constantly investing in younger generations, Saipem invests in the creation of specialised skills and transfer of know-how also through classroom and on-the-job training programmes aimed at young students from schools and universities with which the company initiates long-term partnerships.
In 2018, the total number of training hours provided increased compared to the previous year due to an increase in the hours of HSE training and in particular of the portion distributed to subcontractors, which totalled 1,262,965 hours.
The hours of employee training increased compared to the previous year, despite the decrease in the workforce during the year. HSE training represents the quantitatively most significant type of training organised over the year. **An average of 18.5 hours of HSE training were provided for employees in 2018** (17.7 if one considers the Group total perimeter), an improvement on 2017.
On average, every employee attended 25.4 hours of training courses (24.1 at Group level), an increase on the 24 (21.9 at Group level) provided in 2017.
There was a very positive trend in relation to managerial training provided in 2018; in fact, the latter rose by 85% compared to 2017 following an increase in the managerial and institutional training offered mainly for the benefit of the employees of Saipem SpA's Italian offices.
In 2018, there was a 38% growth in the population monitored through performance assessment tools compared to 2017 for the Group total perimeter.
This improvement is attributable to a greater familiarisation with the system that supports the management of the recently modified evaluation process. In particular, there is an increase in the coverage of the tool in the population of employees classified as Blue Collar workers.

		2016		2017		2018	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Training							
Total hours of training, of which:	(hours)	1,570,894	1,542,514	1,930,709	1,908,702	2,086,681	2,059,822
- HSE (employees and subcontractors)	(hours)	1,324,853	1,297,778	1,699,674	1,677,713	1,867,401	1,840,555
- managerial potential and skills	(hours)	24,446	24,385	15,090	15,090	27,934	27,934
- professional technical skills (*)	(hours)	221,595	220,351	215,945	215,899	191,347	191,333
Performance assessment							
Employees undergoing performance assessment,	(No.)	24,144	-	9,844	-	13,568	13,130
of which:	(%)	60	-	27	-	40	41
Senior Managers	(No.)	375	-	359	-	372	372
Managers	(No.)	3,034	-	2,918	-	2,452	2,452
White Collars	(No.)	10,054	-	5,781	-	7,211	6,785
Blue Collars	(No.)	10,362	-	786	-	3,533	3,521

(*) Please note that in 2018 the values of the 'IT and language' training were aggregated under the heading 'Professional technical skills'.

Industrial relations

The global context in which Saipem operates, characterised by the management of diversity of specific socio-cultural and economic context means that the management of industrial relations requires the utmost care and attention.
Over the years Saipem has consolidated industrial relations model aimed at ensuring the harmonisation and optimal management of relations with trade unions (OO.SS.), employees, employers' associations, institutions and public bodies in line with company policies.
With reference to the commitment to strengthen dialogue with social partnership, the first meeting of the **Saipem Group European Works Council (EWC)**, was held in September in Milan which involved Company Management and a delegation of 26 representatives of the workers employed by Group entities operating in Europe, in addition to the national and general representatives of the Italian trade union and a representative of industrialists. The three days of meetings launched the permanent mechanism for information and consultation between company management and the workforce, in compliance with the relevant European legislation reflected in the Saipem EWC agreement negotiated in 2017. The meeting was an important occasion of confrontation and discussion between the company and workers' representatives, fully integrating itself within the 'participatory' model of industrial relations to which Saipem adheres.
On the **international industrial relations**, front, bargaining agreements were renewed in Peru in 2018 for personnel employed in onshore drilling, in Nigeria for Onshore E&C personnel and in Indonesia for Offshore E&C personnel.
A new bargaining agreement was signed in Chile with the SINAMIND union for local workers employed in the Spencer Growth Option (SGO) project, while in Argentina the Petrex SA Argentina Branch company adhered to sector agreements, to protect the staff employed in drilling, applicable to the provinces in which the company operates.
In Norway, consultations were held with the trade union organisations Saipem Employees Association (SEA), SAFE, DSO and Lederne, in accordance with local legislation.
With regard to **industrial relations in Italy**, in 2018 the relationship with trade unions it has remained constant and constructive, both at the level of the National Secretariats and with the union representative of the various offices.
With regard to national sector bargaining agreement, the renewal process for the Energy and Oil National Collective Labour Agreement, which expired at the end of 2018, was launched.
In terms of company agreements, the new Framework Agreement for the Production Bonus was signed for the three-year period 2018-2020, whose system, in line with the new organisational model, values the contribution provided by each Division in reaching corporate objectives.
A process of sharing objectives and the development of the project with trade unions was launched which, following periodic meetings, ended with a specific agreement aimed at defining the start of a smartworking pilot project whose application will be progressively deployed within the various Italian offices as part of the **Flexibility Programme**.

		2016		2017		2018	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Employees covered by collective bargaining	(%)	58	60	49	62	47	46
Strike hours	(No.)	65,196	55,961	1,143	1,143	23,699	23,699

Of more than 25,000 employees (more than 27,000, if we consider the Group total) monitored (the total includes full-time Italian employees, French employees irrespective of the country they work in and local employees for all the other countries), **11,824 (12,404 at Group total) workers are covered by collective bargaining agreements**.
The downward trend for the Group total can be attributed to the fact that a growing proportion of Saipem personnel work in countries where these types of agreements are not provided for. At the same time, there has been a reduction of personnel in areas where these types of agreements are widespread (Indonesia, Kazakhstan and Nigeria).

Some strikes were held in 2018 for a total of 23,699 hours. Strikes were held in Nigeria (where 97% of strike hours were recorded) and in Norway. In many cases the events were in conjunction with national events.

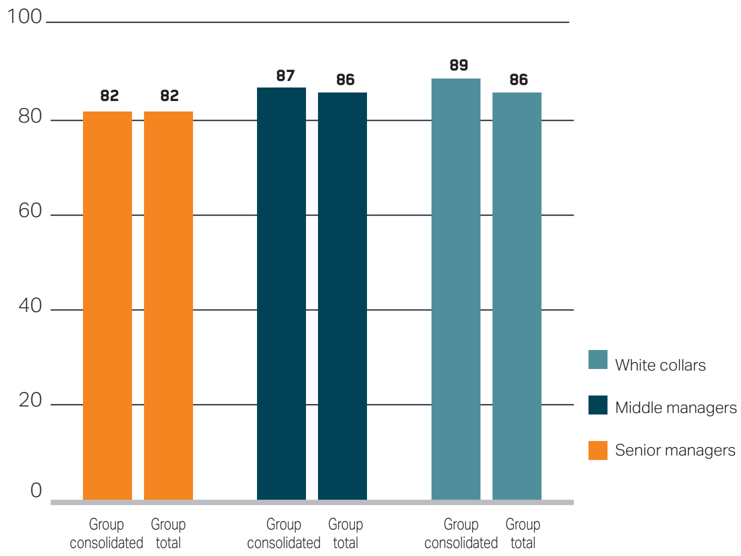
Diversity and equal opportunities

Saipem is committed to creating a work environment where different characteristics or personal or cultural orientations are considered a resource and a source of mutual enrichment, as well as being an inalienable element of business sustainability.
This commitment is a founding point of the Policy 'Our People'.

As defined in the Code of Ethics, in full compliance with applicable legal and contractual provisions, **Saipem undertakes to offer equal opportunities to all its employees**, making sure that each of them receives a fair statutory and compensation exclusively based on merit and expertise, without discrimination of any kind.
The functions responsible for managing people must:
- adopt in any situation criteria of merit and ability (and anyhow strictly professional) in all decisions concerning human resources;
- select, hire, train, compensate and manage human resources without discrimination of any kind;
- create a working environment where personal characteristics or beliefs do not give rise to discrimination and which allows the serenity of all Saipem's people.

More specifically, the Group's **compensation policy** is based on the principle of equality of merit and the local approach. In fact, Saipem defines its policies in full accordance with the skills and performance assessment and identifies compensation strategies through a local approach that intercepts the specific nature of the labour market and the local labour law context.
Saipem is also committed to promoting programmes to guarantee **generational turnover**, aiming to ensure business continuity, ensure critical skills and promote change. These initiatives on one hand provide development opportunities for young people and, on the other, enhance the senior resources and their know-how.
Generational turnover will be achieved in Saipem by supporting the motivation of the most expert resources to foster tutoring and the transfer of knowledge, as well as creating the organisational and managerial conditions to allow young people to obtain full empowerment.
Saipem provides its employees with **different benefits and methods of allocating these**, in accordance with local conditions.
These include: complementary pension plans, supplementary healthcare funds, mobility support services and policy, welfare initiatives and family support policies, catering and training courses aimed at ensuring more effective integration within the social-cultural context in question. These benefits, when envisaged and based on the country/society/local legislation in force, today are applied to the whole specific reference population regardless of the type of contract (temporary/permanent), except for those particular services where the time scale of performance delivery may not be compatible with the duration of the contract.
The **protection of specific groups of employees** is safeguarded through the application of local laws, and is reinforced by specific corporate policies that emphasise the importance of this issue. The goal is to ensure equal opportunities for all types of worker in an effort to deter the onset of prejudice, harassment and discrimination of any kind (e.g. related to sexual orientation, colour, nationality, ethnicity, culture, religion, age and disability) in full respect of human rights.
In various business operations and in compliance with specific, local legislation, Saipem guarantees the inclusion of disabled or young personnel and compliance with pre-established ratios between local and expatriate personnel.
As regards **gender diversity**, the **percentage of women who hold a managerial position** compared to the total number of women **rose from 18% in 2017 to 19% in 2018 (compared to the Group consolidated perimeter)**. Saipem is equipped with precise guidelines to standardise pay policies and reduce the pay gap between men and women in all the local bases where it operates. The Company **defines the compensation policy guidelines annually**. In particular, Saipem constantly strives to affirm the 'equal pay for equal work' principle and reduce the pay gap between men and women, in all operating situations, even if, on a global level, the result of the gender pay gap indicator is also influenced by the specific manpower dynamics of the year. The indicator reaches 82% for the Senior Manager category (both for the Group consolidated and Group total perimeter); as for Middle Managers, the 2018 indicator records a value of 87% (86% for the Group total perimeter) and with regard to the White Collars a value of 89% is reached (86% for the Group total perimeter). The Blue Collar category experienced a significant positive

GENDER PAY GAP
(%)



The gender pay gap indicator is calculated as the ratio between the average salary of a woman compared to the average salary of a man by category.

	2016		2017		2018	
(No.)	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Women in the workforce						
Women employed, by geographical area:	4,251	4,010	3,790	3,560	3,644	3,458
Americas	495	485	348	348	350	350
CIS	478	462	461	442	420	419
Europe	2,198	2,100	2,101	1,983	1,998	1,902
Middle East	129	123	120	115	154	152
North Africa	30	30	33	33	35	35
Sub-Saharan Africa	250	249	312	224	307	220
Far East	560	560	415	415	380	380
Women in leadership						
Women Senior Managers	23	23	23	23	23	23
Women Managers	600	591	612	606	643	633
Age ranges						
Employees under 30 years	5,809	4,225	4,330	3,724	3,740	3,526
of which women	735	540	494	427	439	399
Employees between 30 and 50 years	28,418	26,353	25,673	22,919	24,295	22,467
of which women	2,961	2,876	2,744	2,601	2,646	2,522
Employees over 50 years	6,078	6,281	5,915	5,415	6,094	5,700
of which women	555	594	552	532	559	537
Multiculturalism						
Number of nationalities represented in the employee population	120	115	115	115	123	122

variation, motivated also by the fact that the female population in this category (59 Blue Collar women for the Group consolidated perimeter and 85 for the Group total) is mainly employed in countries with higher wages than average.
Saipem supports the **work/family balance** of its personnel through company regulations and/or local policies which guarantee **parental leave**. These leaves differ only in the time and method of abstaining from work.
The growth in the average number of days of leave taken even if there was an overall reduction in the number of beneficiaries is clear. In 2018, Saipem had 919 employees (947 if we refer to the Group total perimeter), 423 men (437 considering the Group total perimeter) and 496 women (510 considering the Group total perimeter), who made use of parental leave for a total of more than 43,000 days (45,000 referring to the Group total perimeter); at the same time, one should note the return to work from parental leave of 703 employees (727 at Group total level), 385 men (399 at Group total level) and 318 women (328 at Group total level), with a **return rate from parental leave of 76% (77% at Group total level), a slight decrease against the previous year**.

Innovation in people management

In April, Saipem launched the **'Flexability' Smart Working Programme**.
The Programme has identified four specific areas of action (HR practice, digital culture, technology, work spaces) through which it is possible to establish an **improvement path of the work organisation model that passes through a cultural, technological and digital change** which can positively contribute to the achievement of company results through increases in efficiency and effectiveness.
Work teams were created for each area of action that have committed resources belonging to all the main Saipem professional areas/families. In order to meet the specific operational and organisational needs of the Divisions, ad hoc solutions have been identified for each of them, so that the work teams can focus on the specific needs of each business area.
The Programme, divided into the specific fields of action, was launched with an experimental phase applied to a pilot group of workers in Italy and France, with the aim of extending the perimeter of the resources and of the countries involved in the course of 2019.
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**. In the second half of 2018, the Millennial Generation was analysed with the aim of better understanding the approach to the labour market of these emerging generations that are expected to represent more than 40% of the workforce in 2020. Through this study it was possible to design a set-up of new

processes (which will be launched in 2019) linked, on the one hand to the ability to attract new candidates through innovative selection methods and, on the other, by the ability to retain resources by creating a working environment that enhances flexibility and the use of mobile technologies for training and performance assessment processes.
To complete these new policies aimed at millennials, a more liberal use of non-monetary benefits that are increasingly in demand and sought after by the new generations will be promoted.
As part of Saipem's broader digital transformation programme, the Human Resources department has incorporated the need to innovate systems and tools to support the main processes for managing and developing human capital. With this in mind, efforts continued in the rationalisation of payroll providers at a global level, with the aim of standardising the service level and making data more easily available and usable centrally for consolidation and reporting purposes. A study and analysis project was also launched in Italy in order to further strengthen the ability to control and report the main management and administrative indicators, as well as to increase the operability in terms of service to users. Furthermore, the initiative to develop and improve a system of KPIs and metrics on HR processes continued in order to monitor the efficiency and effectiveness of the pertinent processes and to guarantee a more precise level of control both at a central and divisional level; the monitoring and control system is therefore a periodic reporting system able to ensure the definition of improvement plans in the management of the 'employer life-cycle'.

Health

As described in 'The integrity in our operations' Policy, **Saipem considers the safeguard of health and the promotion of the physical and mental well-being of its people as a fundamental requirement**.
This is a fundamental condition of the modus operandi of Saipem which is committed to being leader in the safeguard of health, as well as safety and the environment (further details can be found in the **HSE Policy of Saipem SpA**). The Company pursues this commitment in compliance with the provisions on the protection of privacy and the national and international laws on the safeguard of health and the prevention of diseases.
Its implementation implies that the health promotion programme, for each work site, concentrates mainly on preventive measures and considers all the activities whose performance could represent a health risk. Activities implemented include, for example, an assessment of the health risks, check-ups for the issue of fitness certificates, vaccinations and chemoprophylaxis, health information, monitoring of the hygiene/sanitary conditions, programmes for the prevention of diseases and activities to promote health and physical activity.
Saipem's operating activities require the movement of a considerable number of people, even to remote locations and contexts, sometimes unknown to the workers. For this reason, the Company ensures workers the best possible medical assistance wherever they work, organises regular specific medical examinations and consequently prepares medical fitness certificates, as well as delivers training programmes to assigned personnel before undertaking any travel or being assigned abroad. This is to prevent risks of contracting diseases due to the effect of the climate, environmental and psychosocial factors linked to the place of destination.
The Company is equipped with structured processes and a chain of well-defined responsibilities to promptly manage any **medical emergency** whatsoever.
Saipem has developed a continually evolving health management system, which is adapted to the work environments, integrates the most recent epidemiological studies and is designed to ensure the best health monitoring and medical services.
This system observes the principles recognised at international level and by local laws, the WHO (World Health Organization) Beijing Declaration, 'Global Strategy on Occupational Health for All' (1994), European legislation and directive 2000/54/EC on the protection of workers from risks related to exposure to biological agents at work, its application in Italy through Legislative Decree No. 81/2008 and its amendments ('Consolidated Law on occupational safety' - 'Testo Unico in materia di salute e sicurezza sul lavoro'). This approach ensures effectiveness, flexibility and an adequate basis for the development of a long-term health culture in all the countries where the Company operates.
For each site/project/asset, the management system requires that the **risks linked to the health of personnel**, are identified and assessed (taking into consideration the frequency and potential impact), after which suitable **preventive and mitigation measures** are identified and implemented. These measures are periodically **monitored**.
The general principles for the safeguard of health are based on the analysis of the activities carried out in the work environment and take into consideration the risks that those activities have on both the people involved in the operations in different roles and the local community.
The analyses carried out are specific for each duty and destination. They include the identification of the activities and operating conditions in relation to normal, abnormal and

emergency running conditions; the analysis of the possible contact routes for the risk agents and their combined action and a clear association of the hazards to the duties in relation to the specific nature of the identified activities. The results of the analyses allow the **personnel to be equipped with suitable equipment and appropriately monitored**.

		2016		2017		2018	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Occupational diseases reported	(No.)	9	9	5	4	7	7
Reported occupational diseases rate	(ratio)	0.08	0.08	0.05	0.04	0.03	0.03

The reported occupational diseases rate is calculated as the number of occupational diseases reported divided by the hours worked by Saipem personnel, all multiplied by a million.

Occupational Health and Medicine

In 2018, **the review and consolidation process regarding IT security on systems managing health data** was concluded in compliance with legislative requirements 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 - GDPR).
In the field of Occupational Medicine and Health Surveillance, the process of **reviewing the protocols and certifications in compliance with the sector guidelines (OGUK and OGP IPIECA)** was concluded.
In the field of technological innovation and development, aimed at a more secure and efficient management of personal health data, the activity of implementation and deployment of the **'My Health Records' programme**, to the Saipem Divisions continues, which allows all Saipem worldwide staff under health supervision to be able 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 process, the **Saipem 'Sì Viaggiare' ('Yes Travel') application**, is continuously managed and updated to streamline the content modification process to provide faster, less expensive and, consequently, more frequent updates.
Important scientific and technical developments have been planned for 2018 and will include an initial application in 2019, such as:
- the partnership with the Scientific Society of Travel Medicine to update contents and share the Best Practices;
- the agreement with the Apollo Hospital in Chennai and the Port Harcourt/Nigeria base for a pilot tele-radiology project.

During the year, the **Health Surveillance and Vaccinoprophylaxis activity**, continued, also as part of the employee welfare initiatives within the company (vaccines and health services in partnership with public and private hospitals and clinics). A project called **'Corporate Health News'** was launched to collaborate on scientific communication with an important High Specialisation Polyclinic for the disclosure of health care information/news to Saipem SpA employees.
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 and second-hand smoke and road safety in association with ACI and INAIL.

Safety

The safety of all Saipem personnel is a priority and strategic objective of the Company.
This commitment is also clearly described in the 'HSE' Policy of Saipem SpA and the 'Integrity in our operations' Policy.
The safety of people is constantly monitored and guaranteed in the management of its activities through an integrated health, safety and environment management system, which meets international standards and current legislation. **In 2018, the OHSAS 18001 and ISO 14001 certifications of Saipem SpA were confirmed by a third-party certification body through a periodic audit process. The coverage of these certifications were extended in 2017 to the most significant business entities** in the Group, guaranteeing a uniform and systematic approach in the management of the processes.
Saipem defines a **safety objectives plan every year at corporate, division and operating company level**, which is approved by the CEO, division manager and managing directors, respectively. **The incentive plans for the senior managers for the areas**

under their responsibility are linked to the achievement of these objectives.
Further details can be found in the '2019 Remuneration Report'.
For the year 2019, these goals include:
- the identification of the hazards and the periodic assessment of the risks associated with the safety of personnel, vendors and other persons involved in the company's activities, as well as the risks for the company assets;
- guarantee appropriate assessment of the risks caused by the interference between the activities subcontracted to the vendors operating on Saipem structures or sites;
- the training of personnel. The HSE training process can be broken down into several phases: updating the HSE training protocol (which identifies the training needs based on professional roles), definition and standardisation of the courses on a dedicated platform, provision of the courses, monitoring and reporting on the training activities;
- adoption of adequate preventive and protective measures to guarantee the integrity and efficiency of the assets and the health and safety of people;
- follow-up and control activities on the effectiveness of the prevention and the protective measures implemented;
- reporting, registration, analysis and investigation activities for accidents and near misses;
- consolidation and analysis of safety performance.

The Company carries out **internal audits regarding HSE** on: HSE management system, compliance with the HSE legislative provisions and audits on the processes regarding safety; these audits, **181 in 2018**, involved operating companies, operational sites (including the fleet) and subcontractors.
At Saipem, promoting a culture of worker health and safety is facilitated in the company's industry by both the reference regulatory framework, characterised by laws and agreements at national and company level, and by an internal environment characterised by specific policies on health and safety.
These policies set particularly stringent criteria compared to the local contexts, which today still have regulatory systems in the process of development. Not all countries in which Saipem operates have trade unions at both national and local levels.
Where specific agreements are in place with trade unions, they can including the following on safety:
- setting up workers' safety committees (composition and number);
- specific training for safety officers (responsible company figures and employee representatives) and grassroots information on safety matters to all employees, with particular reference to courses on Health and Safety at Work, Fire Fighting, First Aid, and mandatory 'Special Operations' (Onshore-Offshore);
- regular meetings between the company and workers' representatives.

In Italy, the collective agreement (CCNL) provides for the appointment of corporate representatives of the workers for their protection in the areas of health, safety and environment (RLSA). The appointment is by election, based on the provisions of law and the bargaining agreement. There are a total of 19 RLSA at the Saipem Italian offices.
A specific trade union agreement signed by Saipem and the Trade Union Organisations (OO.SS) defines the duties of the RLSA and their full authority to carry out their activities also for workers assigned temporarily to activities at yards and work-sites other than those of origin.
It should also be noted that abroad there are institutes where participation is shared between management and the workforce for the management of initiatives and programmes regarding health and safety in accordance with the reference regulations in different national situations. Among these are the Saipem Group entities operating in Algeria, Angola, Bolivia, Brazil, Canada, Colombia, Congo, Croatia, Ecuador, France, Indonesia, Malaysia, Mexico, Norway, Peru, United Kingdom, Romania and Venezuela.
The Company has launched several awareness campaigns over the years with the purpose of spreading a deeper and more entrenched safety culture. The Leadership in **Health and Safety (LiHS) programme** stands out among these. Its purpose is to **promote the development of leadership abilities and cultural change regarding safety**. The programme, which reached its eleventh year of implementation in 2018, aims to spread safe behaviour, focusing on the development of leadership at all levels.
During the years 2017 and 2018, **special workshops were organised, with the Top Management and the Business Divisions**, to further reinforce the LiHS programme messages, create an opportunity for dialogue on leadership and safety issues and build the new Health & Safety Vision, the document that reflects the corporate values and long-term objectives to be achieved in terms of company Safety Culture.
Among the main activities carried out during the year by the **LHS Foundation**, a foundation created by Saipem to spread a new culture of health and safety in the professional world and to make the expertise gained by the Company available to the industry and the society, the following are of note:
- **'Italy Loves Safety'**, a social experiment that groups hundreds of Safety Ambassadors, including entrepreneurs, professionals, trainers, educators, students

SAFETY INDICATORS: DEFINITIONS AND CALCULATION METHODS

LTI (Lost Time Injury): means any work-related injury that renders the person temporarily unable to perform any regular activity or restricted work during any day/shift after the day on which the accident occurred. The LTI include fatal accidents, permanent total disability, permanent partial disability and temporary total disability.

WRC (Work Restricted Case): term to define any injury at work, with the exception of fatalities or lost days, which makes the person unfit for performing all his/her activities fully in the days after the injury at work. In this case, the injured person is temporarily assigned to other duties or exempted from some parts of his/her normal duties. The maximum limitation time can be 30 days. If the limitation exceeds 30 days, the injury must be classified as LTI.

MTC (Medical Treatment Case): term to define any injury at work (infected wounds, stitches, deep presence of foreign bodies in the eyes, etc.) which does not entail either lost work days or restricted work days, but requires recurring treatment by the doctor or in accordance with his specific indication or which could be considered a case that falls within the scope of a doctor's expertise.

TRI (Total Recordable Incidents): means the sum of LTI, cases of limited work and cases of medical treatment: TRI = LTI+WRC+MTC.

TRIFR (Total Recordable Incident Frequency Rate): it is calculated as (TRI number on hours worked) x 1,000,000.

FTLFR (Fatal Accident Frequency Rate): calculated as (number of fatal accidents per hour worked) x 100,000,000.

LTIFR (LTI Frequency Rate): it is calculated as (No. LTI on hours worked) x 1,000,000.

Lost days of work: the total number of calendar days in which the injured person was not able to do their job as a result of an LTI. The calculation for the lost days starts from the second day after an accident until the day when the person is capable of returning to work. The calculation does not include fatal accidents.

SR (Severity Rate): it is calculated as (No. of days of work lost on hours worked) x 1,000.

High-consequence work-related injury: injury with more than 180 days lost.

High-consequence work-related injuries Frequency Rate: it is calculated as (No. of accidents with a high impact on work hours) x 1,000,000.

Absenteeism rate of employees: it is calculated as the ratio between the number of total hours of absence and the number of total annual theoretical working hours. The theoretical annual hours of work are calculated proportionately to the number of staff at December 31.

and ordinary citizens who believe in the need to revolutionise the way of promoting safety since 2015. In the first three years of the 'Italy Loves Safety' movement, the **ambassadors carried out more than 1,000 free and safety-related events throughout Italy**;

- **'Growing New Leaders in Safety'**, a training programme consisting of several workshops for children and youths from 3 to 18 years of age. An activity is developed for each target audience that is adequate to the cognitive and learning abilities of the youngsters, which can, through play,

		2016		2017		2018	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Worked man-hours							
Total, of which:	(millions of hours)	258.6	222.5	281.9	220.8	272.5	268.4
Man-hours employees	(millions of hours)					93.3	89.9
Man-hours subcontractors	(millions of hours)					179.1	178.5
Accidents with days lost (LTI)							
Total, of which:	(No.)	52 (*)	41 (*)	40 (*)	37 (*)	36	36
Employees	(No.)					17	17
Subcontractors	(No.)					19	19
Of which fatal accidents:	(No.)						
Total, of which:	(No.)	1	1	3	3	4	4
Employees	(No.)					-	-
Subcontractors	(No.)					4	4
High-consequence work-related injuries							
Total, of which:	(No.)					1	1
Employees	(No.)					1	1
Subcontractors	(No.)					-	-
Days lost							
Total, of which:	(No.)	3,106	1,705	1,857	1,380	1,280	1,280
Employees	(No.)					572	572
Subcontractors	(No.)					708	708
Severity Rate							
Total, of which:	(ratio)	0.01	0.01	0.01	0.01	0.005	0.005
Employees	(ratio)					0.006	0.006
Subcontractors	(ratio)					0.004	0.004
Total Recordable Incidents (TRI)							
Total, of which:	(No.)	201	139	144	113	120	118
Employees	(No.)					57	55
Subcontractors	(No.)					63	63
Employee absentee rate (**)	(%)	4.9	4.2	4.1	4.7	4.0	3.9
Fatal Accident Frequency Rate (FTLFR)							
Total, of which:	(ratio)	0.38	0.45	1.06	1.36	1.47	1.49
Employees	(ratio)					-	-
Subcontractors	(ratio)					2.23	2.24
Lost Time Injuries Frequency Rate (LTIFR)							
Total, of which:	(ratio)	0.20	0.18	0.14	0.17	0.13	0.13
Employees	(ratio)					0.18	0.19
Subcontractors	(ratio)					0.11	0.11
High-consequence work-related injuries Frequency Rate							
Total, of which:	(ratio)					0.004	0.004
Employees	(ratio)					0.011	0.011
Subcontractors	(ratio)					-	-
Total Recordable Incidents Frequency Rate (TRIFR)							
Total, of which:	(ratio)	0.78	0.62	0.51	0.51	0.44	0.44
Employees	(ratio)					0.61	0.61
Subcontractors	(ratio)					0.35	0.35

(*) It should be noted that starting 2018, after updating the reporting methodology, fatal accidents are included in the representation of LTIs for all reported years.
(**) Group consolidated perimeter includes all companies fully consolidated with the exclusion of North Caspian Service Co, Saipem Australia Ltd, Saipem East Africa Ltd, Saipem Ingenieria y Construcciones SLU, Saipem Misr for Petroleum Services (S.A.E.). Group perimeter includes all the companies included in the abovementioned perimeter and Petromar Lda, SaiPar Drilling Co BV and TSGI Mühendislik İnşaat Ltd Şirketi.

reading, watching films and theatrical performances, stimulate them on the theme of health and safety, promoting more correct and positive behaviours for themselves and for others. Each of the six educational courses relies on the collaboration of professionals and the world of childhood education such as Muba, Museo del Bambino of Milan or the emergency management sector such as the Italian Red Cross. **In 2018, the project involved 3,335 students and teachers**.

Unfortunately, 4 fatal accidents occurred in 2018 involving subcontractor personnel in Turkey, Kazakhstan and Saudi Arabia, at two different sites. Although outside the reporting scope of Saipem (it occurred outside work hours), it is considered important to mention a large road accident which occurred during the transport of personnel involving the vehicle of a subcontractor with 12 passengers.
The event occurred near a site operating in Saudi Arabia and caused the death of 4 people and injury to others. It was established that all persons transported who wore seat belts correctly at the time of the accident were not injured.
The fatal accidents that occurred during operational activities are related to a fall, a collision with a moving vehicle, a road accident and the dismantling of a crate containing a valve. In-depth investigations have been carried out to identify the causes of these accidents and appropriate actions have been implemented in order to minimise the possibility of recurrence.
During the year, Saipem continued to invest significant resources in training its staff on HSE issues through campaigns and ad hoc programmes, in order to increase workers' awareness of the risks associated with work activities.
While not diminishing the importance and unacceptability of the events described, it is worth noting the positive trend of the main overall safety indicators (TRI - Total Recordable Incidents and LTI - Lost Time Injury). TRI Frequency Rate (TRIFR) and LTI Frequency Rate (LTIFR) decreased by 14% (for both perimeters) and by 7% respectively for the Group total perimeter (24% for the Group consolidated perimeter) compared to the previous year.
The main critical issues identified by the analysis of the incidents occurred are confirmed, with regard to occupational risks, as 'falls from heights' and accidents related to manual handling and manual operations. Although the incidents related to 'falling objects' have decreased significantly, mainly due to the implementation of the specific DROPS campaign (Dropped Objects Campaign), they continue to represent an important source of potential accidents. Road accidents and commuting accidents are issues of increasing attention.
The performance indicators for the year confirm the importance of a widespread implementation of all the programmes and campaigns carried out by the Company on all sites, and with the maximum commitment.

Asset integrity

Saipem strongly pursues the effective implementation of its asset integrity management system as an outcome of good design, construction and operating practices adopting the integrated management of barriers to reduce the risks associated with Major Accident Events (MAE).
Asset integrity refers to the prevention and control of the events with low frequency and high/severe consequences on people, the environment, assets or project performance.
A dedicated team has been set up to develop an asset integrity management system model in line with the best Industrial practices.
The asset integrity model follows a typical Deming cycle: planning, operations, performance monitoring and continual improvement.
Saipem undertakes to prevent risks to improve the integrity of its operations. For this purpose, it adopts a proactive approach in the mitigation of risks as an integral part of its management and business activities.
Further information is available in the 'Sustainable Saipem 2018' section 'Safety for our assets'.

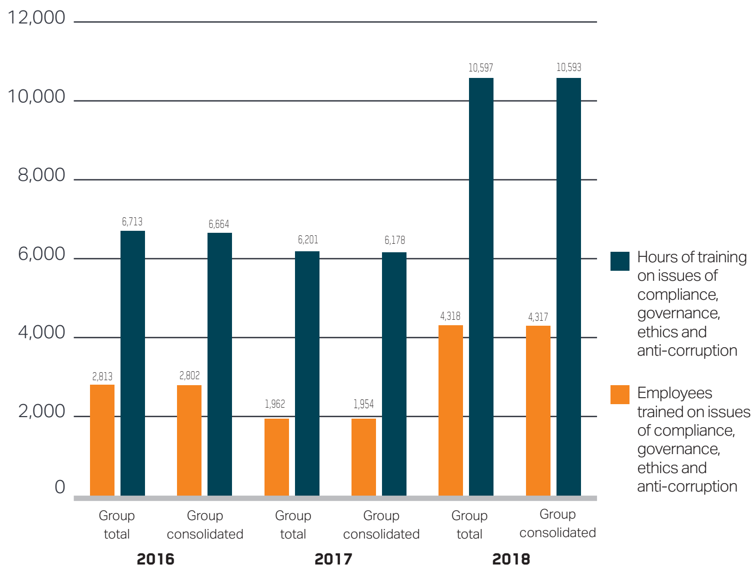
Fighting corruption

Saipem has always conducted its business with openness, fairness, transparency, integrity and in full observance of laws and regulations. In this context, corruption is an intolerable impediment to the efficiency of business and to fair competition.
Amongst its various initiatives, Saipem has designed an **'Anti-corruption Compliance Programme'**, a detailed system of rules and controls aimed at preventing corruption in line with best international practices and the principle of **'zero tolerance'** expressed in the Code of Ethics.
In particular, the Saipem Code of Ethics (including Model 231) establishes that 'bribes, illegitimate favours, collusion, requests for personal or career benefits for oneself or others, either directly or through third parties, are prohibited without any exception'.
The Saipem 'Anti-corruption Compliance Programme' is characterised by its dynamism and constant attention to the evolving national and international regulatory framework and best practices.
Over the years, and in view of continuous improvement, the 'Anti-corruption Compliance Programme' has been constantly

updated in line with the applicable provisions in force (including, inter alia, the United Nations Convention Against Corruption, the Organisation for Economic Cooperation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, Italian Legislative Decree No. 231 of June 8, 2001, the US Foreign Corrupt Practices Act and the UK Bribery Act and Sapin 2 Law).
More specifically, the Board of Directors of Saipem SpA approved the 'Anti-Corruption Management System Guideline' (Anti-Corruption MSG) on April 23, 2012. This repealed and replaced the previous Anti-Corruption Compliance Guidelines in order to optimise the compliance system in force. All the detailed anti-corruption procedures for specific risk areas were then updated (inter alia, the procedures for joint venture agreements, sponsorship, gifts, non-profit initiatives, vendors and consultants, relations with public administration and merger & acquisition operations).
Subsequently, Saipem SpA issued the latest revision of the 'Anti-Corruption management System Guideline' in 2015. This represented an improvement in the regulatory context of the 'Anti-corruption Compliance Programme' and the Saipem Corporate Governance systems regarding anti-corruption.
The above-mentioned MSG was examined and approved by the Board of Directors of Saipem SpA. Its adoption and enforcement is mandatory for Saipem SpA and all its subsidiaries.
All Saipem people are responsible for complying with the anti-corruption regulations: all the documents are accessible to them through the website and the company intranet portal. In this context, the managers hold a role of primary importance and they are called upon to promote compliance with the anti-corruption procedures by their colleagues.
Furthermore, Saipem was one of the first Italian companies to achieve the international certificate ISO 37001:2016 'Anti-corruption management systems'. This certification, awarded by an independent accredited body, identifies a management standard that helps organisations in the fight against corruption, establishing a culture of integrity, transparency and compliance.
The certification process, which included an audit phase that began in January 2018 and ended in April 2018, took into consideration such factors as the organisational structure, local presence, processes and services.
Aware that the primary element for developing an effective strategy to combat the phenomenon of corruption lies in developing a thorough understanding of the tools for its prevention, Saipem regards these training initiatives and awareness activities considerably important. In 2018, there was an

COMPLIANCE TRAINING

(number)



annual increase in training hours provided in this area above 71% for both perimeters.
Moreover, the Internal Audit function of Saipem shall independently review and assess the internal controls in order to verify compliance with the requirements of the MSG 'Anti-Corruption', based on its own annual audit programme approved by the Board of Directors of Saipem SpA.
Any violation, suspected or known, of anti-corruption laws or anti-corruption procedures must be immediately reported through the channels indicated in the 'Whistleblowing reports received by Saipem and by its subsidiaries' procedure, which is available on the Company website and the intranet portal. Disciplinary measures are provided for people in Saipem who violate the anti-corruption regulations and omit to report violations that they are aware of.
Saipem expects all of its Business Partners to comply with all applicable laws, including anti-corruption laws, in connection with Saipem's business, and to undertake to comply with the reference principles of the Anti-Corruption MSG.

Human rights

Saipem is committed to protecting and promoting human and labour rights when conducting its business, taking into consideration both the work standards recognised at international level and the local legislation in the countries where Group companies operate. This commitment is part of Saipem's modus operandi and is also made clear in the 'Our People' Policy.
With reference to the management of relations with personnel worldwide, **Saipem adheres to the principles of the UN Universal**

RISKS CONCERNING ISSUES COVERED BY ITALIAN LEGISLATIVE DECREE 254/2016: HUMAN RIGHTS

Saipem material topic		Risks identified by the Company	Summary of the adopted risk mitigation measures
Human and labour rights	Security practices	Human rights violations by security service providers in critical geographic areas or developing countries.	Saipem periodically carries out checks on the reliability of security services, especially during the qualification and selection phase of the relevant providers. Furthermore, the inclusion of clauses concerning the protection of human rights is envisaged in the contracts. Finally, Saipem organises specific training courses for personnel (both internal and external) engaged in security services.

Declaration of Human Rights and the OECD Guidelines for Multinational Companies.
Furthermore, the Chief Executive Officer of Saipem has formally committed to promoting and respecting the **principles set out in the United Nations Global Compact**, to which Saipem adheres, including principles 1, 2, 3, 4, 5 and 6 (regarding the rights of workers and the promotion of socio-economic development of the territories).
In protecting and promoting the rights of workers, due attention is paid to the conventions of the **International Labour Organisation (ILO)** regarding protection against forced labour and child labour, the fight against discrimination in employment and the workplace, freedom of association and collective bargaining.
With specific reference to the latter, Saipem has a sound record of relations with trade union organisations in a variety of geographic locations and covering several segments of its business. Further details can be found in the 'Industrial relations' section hereto.
Saipem promotes and encourages a constant open dialogue between employer and employees so that the interests of the parties can be best realised in consideration of the fact that a regular and effective communication flow between the two parties appreciably reduces the probability of misunderstandings and conflict arising at the workplace.
Therefore, Saipem takes steps to ensure that there is a widespread and shared system between all the workers in Italy and around the world, which permits an easy and effective resolution of any conflicts linked to issues that have implications of an administrative nature.
It is for this purpose that a procedural tool has been drawn up. It defines the methods for resolving conflicts, the timeframe, the people involved in the process and knowledge of the outcomes for the workers.
Saipem's attention to labour rights extends also to offshore personnel with full abidance to the principles and the rights recognised to Seafarers promoted under the **ILO Maritime Labour Convention of 2006 (MLC 2006)**.
Seafarers also have the right to submit a grievance following a structured process if a violation of their rights arises.
In order to guarantee that each person is aware of their rights, all people working on offshore vessels receive a copy of the related procedure and all the forms necessary for the complaint, together with a copy of their employment agreement. The captain and/or the Company examines any complaint, and any instance of harassment is managed in compliance with the Company's disciplinary procedures.
Finally, based on commitments made by the Group in the context of the Global Compact, Saipem has completed a human rights training and awareness programme for HR personnel and company and branch managers operating in 20 countries.
The initiative has reached 85% of the personnel initially selected. At the same time, a similar initiative was targeted at subcontractors to seek a shared and more effective approach to promoting and respecting human rights.

Security practices

In the management of security, Saipem gives utmost importance to respecting human rights. Saipem is committed to adopting preventive measures aimed at minimising the need for response by public/private security forces in the case of any threats to the safety of its people and the integrity of its assets.
The Company manages relations with local security forces in order to ensure a shared commitment to human rights, as well as the adoption of rules of engagement that limit the use of force.
Before signing a contract, **vendors of security goods or services** are **subjected to due diligence**, to verify that there are no counter-indications connected with the violation of human rights.
Saipem has introduced **clauses regarding the respect for human rights**, lin its contracts with these vendors since 2010, and failure to observe them leads to the withdrawal of the Company from the contract.
Until now, the contractual clauses on human rights have been included in the 'General terms and conditions'.
Further information can be found in the 'Human and labour rights' section of 'Sustainable Saipem 2018'.

For new projects in which Saipem is responsible for security, the Company carries out a **Security Risk Assessment** on the country in question before initiating a tender process. If it decides to go ahead with issuing a call for bids, Saipem prepares the **Project Security Execution Plan** in which the security risk connected with the operating activities and the context is analysed, including human rights violation issues. The **actions required to manage and reduce these to a minimum** are decided upon based on the risks identified.
Additionally, the security risk factors of the operating environment are the subject of specific assessment by the Employer (Responsible for the Observance on health and safety) in Saipem SpA and in the subsidiaries. The level of exposure to these risks depends on hygienic-environmental, socio-political factors connected to the phenomena of crimes and terrorism, and cultural, in a variable percentage depending on the country in which one operates.
The Security Risk Assessment (VRS) is the document that identifies the security risks pertaining to each organisational structure/permanent site of an operating company or subsidiary and which defines the main mitigation actions to be undertaken.
The census of all operating sites both onshore and offshore (GST) and Saipem employees (and contractors) present on the various operating sites/management offices, both onshore (POS) and offshore (POB), is constantly updated. As security risk prevention measures, the Company adopts specific measures such as:
- implementation of Meet & Greet procedures in the destination country;
- local 'security induction' for expatriated personnel on arrival at the destination, with indications of local threats, conduct to be followed and precautions to be taken daily in the specific work site/country;
- assignment of a security escort, with use of armoured vehicles, where necessary, based on local security conditions.

The implementation of security plans and the provision of evacuation plans are tools used at all Company operational sites/offices.
The synergy of different company departments also allows them to implement Local Crisis Units for the management of emergencies and crises.
The corporate departments also work in operational coordination with Embassies, Consulates, Ministry of Foreign Affairs (MAE) - Crisis Unit, Client and Third Party Security (JV).
Consistently and in compliance with Legislative Decree No. 81/2008 'Consolidated Law on occupational safety', the Time Management System (TMS) computer software was prepared by the Group Health and Security department to manage missions from their booking/authorisation and track staff on short trips or assignments abroad.
The system made available to resources travelling for business, secondment or work shift rotations between Italy and a foreign country aims to provide Pre-travelling induction accompanied by a series of information on the Security and Health aspects specific to the destination country, as well as to guarantee tracking of workers travelling abroad.

Reporting suspected violations

A fundamental part of Saipem's structured system for managing stakeholder complaints is the reporting management process ('**whistleblowing**') governed by a special Corporate Standard made available to all employees (through various means, among which the intranet and company notice boards) and external stakeholders (published on the Company's website).
The term 'report' refers to any information, notice, fact or behaviour that has in any way come to the attention of Saipem personnel regarding possible violations, behaviour and practices that do not conform to the provisions in the Code of Ethics and/or which may cause damage or injury to Saipem SpA (even if only to its image) or any of its subsidiaries, referring to employees, directors, officers, audit companies of Saipem SpA and its subsidiaries and third parties in a business relationship with these companies, in one or more of the following areas: the internal control system, accounting, internal accounting controls, auditing, fraud, administrative responsibilities under Legislative Decree No. 231/2001, and others (such as violations of the Code of Ethics, mobbing, security, etc.). Saipem has prepared various channels of communication in order to facilitate the sending of reports, including, but not necessarily limited to, regular post, fax numbers, yellow boxes, e-mail, and communication tools on the intranet/internet sites of Saipem SpA and its subsidiaries.
The Internal Audit function ensures that all appropriate controls are in place for any facts that have been reported, guaranteeing that: (i) these are carried out in the shortest time possible and respecting the completeness and accuracy of the investigation; (ii) the utmost confidentiality with methods suitable for protecting the person reporting.
The inspection comprises the following stages: (a) preliminary check; (b) assessment; (c) audit; (d) monitoring of corrective actions.
The Internal Audit prepares a quarterly report on reports received that, following examination by the Saipem Board of Statutory Auditors, is sent to the relevant people for suitable assessment.

(No.)	2016 (*)	2017	2018
Number of cases reported			
Total, of which:	125	118	120
- founded or partially founded	31	24	17
- unfounded	98	92	64
- open	-	2	39

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

Details of some categories of file are provided below:

(No.)	2016	2017	2018
Files on cases of discrimination			
Total, of which:	19	12	13
- founded or partially founded	2	4	-
- unfounded	17	8	7
- open	-	-	6
Files in relation to workers' rights			
Total, of which:	30	26	49
- founded or partially founded	6	3	3
- unfounded	24	21	24
- open	-	2	22
Files regarding violations of the rights of local communities			
Total, of which:	2	3	2
- founded or partially founded	-	-	-
- unfounded	2	3	2
- open	-	-	-

The data is update as of December 31, 2018.

The following were opened in 2018: 13 cases reporting discrimination issues, of which 6 are still open and 7 closed, 49 cases reporting worker's rights issues, of which 22 still open and the remaining 27 closed, 2 cases reporting local community issues, both closed during the year. All 64 cases were transmitted to the pertinent company bodies (Board of Auditors of Saipem SpA, Supervisory Board of Saipem SpA and the Compliance Committees of the companies affected by the reports).
With regard to the issues of **discrimination**, with reference to the closed cases, the pertinent company bodies decided to close 6 on the basis of investigations carried out, considering that there were no violations of the Code of Ethics with reference to the facts reported. In 1 case, albeit without violations, a corrective action consisting of monitoring the reported individuals' behaviour, was identified. The relevant disciplinary measures are applied in the event of breach of the Code of Ethics. It should also be noted that 6 discrimination cases reported in 2017 were closed in 2018; they were still open at the time of the last reporting. Of the 6 cases closed, 4 were unfounded and 2 were founded. With regard to these latest cases, corrective actions were carried out on the perpetrators of the behaviour, which consisted of a warning letter and awareness training on company procedures and policies, as well as on the Group's Code of Ethics and, for 1 case, the pertinent Compliance Committee will conduct another anonymous survey sessions to identify any further improvements.
With regard to the issues of **workers' rights,** with reference to the 27 closed cases, in 19 cases the competent company bodies decided upon closure deeming that there were no cases of violation of the Code of Ethics with reference to the facts reported, whilst violation was confirmed in 3 cases and 5 cases, though without violation, corrective action was taken. The actions were the following: a warning letter issued to the perpetrator; a verbal warning an awareness training with reference to the maintenance of a behaviour consistent with the positions held; actions to raise awareness of compliance with the Code of Ethics; awareness promotion activities in order to reiterate the importance of respecting working hours; organisation of a meeting in order to improve the management of work-related stress and the maintenance of an acceptable style communication; verification of the activation of specific security regulations to ensure the safety of the employees involved in the report; carrying out, on a periodic basis, soft skills training; organisation of coordination meetings between the various departments and evaluation of the opportunities to carry out

organisational changes. Finally, for 1 case the pertinent Compliance Committee will conduct a new anonymous survey session in order to identify any further improvements. It should also be noted that 13 workers' rights cases were closed in 2018 (12 from 2017 and 1 from 2016); they were still open at the time of the last reporting. Of the 13 cases closed, 12 were unfounded and for one case, despite the absence of violations, a corrective action was identified consisting in sending a letter to the vendor in order to sensitize its employees to respect of the Code of Ethics.
As regards issues on the **relations with local communities**, with reference to the 2 closed cases, the competent company bodies decided to dismiss them on the basis of the investigations carried out that deemed that there was no violation of the Code of Ethics with reference to the facts reported.
No corrective actions were implemented. Furthermore, 1 case dealing with issues regarding the local communities from 2017 was closed in 2018. This case was unfounded and no corrective action was identified with regard to this outcome.

Limited assurance

Reporting is subject to limited assurance by an independent company (hereinafter 'the auditor'), the auditor of the annual report. The auditor certifies, in the context of the statutory audit, that the 'Consolidated Non-Financial Statement' have been approved by the Board of Directors.
The auditor also expresses, with an appropriate report, the certification that, based on the work carried out, no elements arose to indicate that 'Consolidated Non-Financial Statement' were not prepared, in all significant aspects, in compliance with the provisions of Articles 3 and 4 of Italian Legislative Decree No. 254/2016 and the GRI Standards. The Saipem SpA Board of Directors approved the 'Consolidated Non-Financial Statement' on March 11, 2019.

GRI content index

In accordance with GRI standards - Core option

Legend of the documents
NFS18: Consolidated Non-Financial Statement
AR18: Annual Report 2018
CG18: Corporate Governance and Shareholding Structure Report 2018

GRI 102: GENERAL DISCLOSURE 2016	
Disclosure	**Section name and page number or link**
Organisation profile	
102-1	Cover (AR18).
102-2	'Directors' Report', pages 15-29 (AR18).
102-3	Back cover (AR18).
102-4	Inside front cover (AR18).
102-5	Table 'Shareholding structure', page XX (CG18).
102-6	'Directors' Report', pages 12-14 (AR18).
102-7	'Saipem people', pages 86-98 (NFS18); 'Letter to the Shareholders', pages 2-4 (AR18); 'Financial and economic results', pages 32-37 (AR18).
102-8	'Saipem people', pages 86-98 (NFS18). Please note that employees on permanent contract (with a key professional role) number 13,468 (14,123 for the Group perimeter), of which 1,150 women (1,189 for the Group perimeter). The geographic distribution of this staff is the following: 725 in the Americas (for both perimeters), 1,607 in the Far East (for both perimeters), 690 in CIS (for both perimeters), 405 in North Africa (for both perimeters), 1,286 in Sub-Saharan Africa (1,512 for the Group perimeter), 3,584 in the Middle East (3,751 for the Group perimeter) and 5,171 in Europe (5,433 for the Group perimeter). Employees who do not hold a key professional role can be defined as 'temporary' for the GRI definition. 31,470 employees have a full-time employment contract (33,906 for the Group perimeter), of which 3,290 are women (3,476 for the Group perimeter).
102-9	'Social aspect management activities and results', pages 82-86 (NFS18).
102-10	'Social aspect management activities and results', pages 82-86 (NFS18).
102-11	'Company management and organisation model', pages 74-76 (NFS18).
102-12	'Fighting corruption', pages 98-99 (NFS18); 'Human rights', pages 99-103 (NFS18).
102-13	Saipem is an active member of 121 business associations at national and international level. The group leader is a member of 47 associations, among which ANIMP, IADC, IMCA, IPLOCA, UN Global Compact, Valore D, WEF and WEC.
Strategy	
102-14	'Letter to the Shareholders', pages 2-4 (AR18).
Ethics and integrity	
102-16	'Company management and organisation model', pages 74-76 (NFS18); inside front cover (AR18).
Corporate Governance	
102-18	'Board of Directors', pages XX-XX (CG18); 'Internal committees to the Board of Directors', pages XX-XX (CG18); 'Structure of the Board of Directors and the Committees', page XX (CG18).
Stakeholder engagement	
102-40 102-41 102-42 102-43 102-44	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Company management and organisation model', pages 74-76 (NFS18); 'Saipem people', pages 86-98 (NFS18).
Reporting practice	
102-45	'Scope of consolidation at December 31, 2018', pages 142-146 (AR18).
102-46 102-47 102-48 102-49 102-50	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Scope of consolidation at December 31, 2018', pages 142-146 (AR18); 'Changes in the scope of consolidation', page 147 (AR18).
102-51	'Consolidated Non-Financial Statement' (NFS17), approved March 5, 2018.
102-52	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18).
102-53	Inside back cover (AR18).
102-54	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18).
102-55	'GRI content index', pages 104-107 (NFS18).
102-56	'Limited assurance', page 103 (NFS18); 'Independent Auditors' Report', pages 108-110 (NFS18).

MATERIAL THEMES		
Specific Standard	**Section name and page number or link**	**Notes/Omissions**
GRI 202: Market Presence 2016		
103-1 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Social aspect management activities and results', page 84 (NFS18).	
202-2	'Social aspect management activities and results', page 84 (NFS18).	People classified as 'local personnel' are those employees residing in the country in which they are employed.
GRI 205: Anti-corruption 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Fighting corruption', pages 98-99 (NFS18).	
205-3	'Legal proceedings', pages 177-188 (AR18).	No employee was dismissed due to corruption cases.
GRI 302: Energy 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Environmental management and results', pages 76-78 (NFS18).	
302-1	'Environmental management and results', pages 79-80 (NFS18).	The total energy consumption in 2018 was equivalent to 18,775.16 TJ (18,987.82 TJ for the Group perimeter). The percentage of renewable electricity produced and consumed by the Group depends on the energy mix of the different countries.
GRI 305: Emissions 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Environmental management and results', pages 76-78 (NFS18).	
305-1	'Environmental management and results', page 80 (NFS18).	The source used to define the emission factors is 'IPCC Guidelines for National Greenhouse Gas Inventories 2006'.
305-2	'Environmental management and results', page 80 (NFS18).	The sources used to define the emission factors are the following: International comparisons ('Confronti Internazionali' - Terna) and Greenhouse Gas Protocol. Scope 2 market-based emissions total 36.3 thousand tonnes of CO_2 eq (38.2 thousand tonnes of CO_2 eq for the Group). Using a conservative approach, the value of scope 2 market-based emissions has been calculated using the residual mix emission factors. The Company is planning to start collecting information on origin certificates from renewable sources in order to provide for next reporting cycle the real value of emissions.
GRI 306: Effluents and Waste 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Environmental management and results', pages 76-78 (NFS18).	
306-3	'Environmental management and results', page 79 (NFS18).	
GRI 401: Employment 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Saipem people', pages 87-88, 91-93 (NFS18).	
401-2	'Saipem people', pages 91-93 (NFS18).	
GRI 403: Occupational Health and Safety 2018		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Saipem people', pages 90, 94-98 (NFS18).	

MATERIAL THEMES		
Specific Standard	**Section name and page number or link**	**Notes/Omissions**
GRI 403: Occupational Health and Safety 2018		
403-5	'Saipem people', page 90 (NFS18).	During the year Saipem held 1,472,112 hours of training exclusively on health and safety topics (1,497,101 for the Group perimeter), of which 514,437 hours for employees (531,347 for the Group perimeter) and 957,675 for subcontractors (965,754 for the Group perimeter).
403-9	'Saipem people', page 97 (NFS18).	
GRI 404: Training and education 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Saipem people', pages 90, 89-90 (NFS18).	
404-1	'Saipem people', page 90 (NFS18).	Training hours are not shown by gender and category because the IT systems used for reporting do not allow for differentiating the data at this time.
404-3	'Saipem people', page 90 (NFS18).	Out of 31,693 employees (34,129 for the Group perimeter), 13,130 (13,568 for the Group perimeter) were subject to performance assessment, of which 51% women (53% for the Group perimeter) and 40% men (38% for the Group perimeter). 98% of senior managers (97% for the Group perimeter), 60% of managers (59% for the Group perimeter), 44% of white collar (43% for the Group perimeter) and 30% of blue collar (27% for the Group perimeter) were involved in this process.
GRI 405: Diversity and equal opportunity 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Saipem people', pages 90, 91-93 (NFS18).	
405-1	'Saipem people', pages 91-93 (NFS18).	The Board of Directors is made up of 9 members of which 3 women. All Directors are over 50 years old. Women represent 11% of the workforce (for both perimeters). For age distribution, 11% of employees are less than 30 years old (for both perimeters), 71% are between 30 and 50 years old (for both perimeters) and 18% are over 50 years old (for both perimeters).
GRI 406: Non Discrimination 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Saipem people', pages 90, 91-93 (NFS18).	
406-1	'Human rights', pages 101-103 (NFS18).	
GRI 407: Freedom of association and collective bargaining 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Social aspect management activities and results', page 85 (NFS18); 'Human rights', pages 99-100 (NFS18).	
407-1	'Social aspect management activities and results', page 85 (NFS18).	

MATERIAL THEMES		
Specific Standard	**Section name and page number or link**	**Notes/Omissions**
GRI 408: Child Labour 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Social aspect management activities and results', page 85 (NFS18); 'Human rights', pages 99-100 (NFS18).	
408-1	'Social aspect management activities and results', page 85 (NFS18); 'Human rights', pages 99-100 (NFS18).	
GRI 409: Forced and Compulsory Labor 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Social aspect management activities and results', page 85 (NFS18); 'Human rights', pages 99-100 (NFS18).	
409-1	'Social aspect management activities and results', page 85 (NFS18); 'Human rights', pages 99-100 (NFS18).	
GRI 410: Security Practices 2016		
103-1, 103-2 and 103-3	'Human rights', pages 100-101 (NFS18).	
410-1	'Human rights', pages 100-101 (NFS18).	10% of security personnel were trained on ethics and compliance topics in 2018.
GRI 414: Supplier Social assessment 2016		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Social aspect management activities and results', page 86 (NFS18).	The data on vendors are collected by means of a qualification questionnaire and then analysed.
414-1	'Social aspect management activities and results', page 86 (NFS18).	2.5% of qualified vendors were assessed on human rights issues in 2018. Please note that only new vendors who provide goods and services belonging to the most significant commodity codes operating in counties deemed critical were assessed on these topics.
Technological and operating innovation		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Directors' Report', pages 40-43 (AR18).	
Safe operations, asset integrity and process safety		
103-1, 103-2 and 103-3	'Reporting methodologies, principles and criteria', pages 71-74 (NFS18); 'Saipem people', page 98.	

INDEPENDENT AUDITORS' REPORT

EY

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Independent auditors' report on the consolidated disclosure of non-financial information in accordance with Article 3, par. 10, of Legislative Decree 254/2016 and with Article 5 of Consob Regulation adopted with Resolution n. 20267 of January 18, 2018 (Translation from the original Italian text)

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

We have been appointed to perform a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of Consob Regulation adopted with Resolution 20267/2018, on the consolidated disclosure of non-financial information of Saipem S.p.A. and its subsidiaries (hereinafter the "Group") for the year ended on December 31, 2018 in accordance with article 4 of the Decree presented in the specific section of the Management Report approved by the Board of Directors on March 11, 2019 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards", issued in 2016 by GRI - Global Reporting Initiative (hereinafter *"GRI Standards"*) identified by them as a reporting standard.

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

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

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

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

Auditors' independence and quality control

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

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Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

Auditors' responsibility

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

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

In particular, we have performed the following procedures:

1. analysis of the relevant matters in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;

2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;

3. understanding of the following aspects:

    - Group's management and organization business model, with reference to the management of the matters indicated in the article 3 of the Decree;
    - policies adopted by the Group related to the matters indicated in the article 3 of the Decree, results achieved and related key performance indicators;
    - main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

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

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

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

- at group level:
  a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- We have selected the following companies and sites, Saipem FDS 2 (Spain), Cornegliano Laudense Natural Gas Storage Plant Project (Italy), PT Saipem Indonesia Karimun Fabrication Yard (Indonesia), based on their activity, relevance to the consolidated performance indicators and location, we have carried out site visits during which we have had discussions with management and have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Saipem Group for the year ended on December 31, 2018 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards guidelines.

Other Information

The comparative information presented in the DNF for the year ended on December 31, 2016 has not been examined.

Milan, April 3, 2019

EY S.p.A.
Signed by Marco Di Giorgio, partner

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

CONSOLIDATED FINANCIAL STATEMENTS 2018

Balance sheet

(€ million)	Note	Dec. 31, 2017 Total	Dec. 31, 2017 *of which with related parties* [1]	Dec. 31, 2018 Total	Dec. 31, 2018 *of which with related parties* [1]
ASSETS					
Current assets					
Cash and cash equivalents	(No. 8)	1,751		1,674	
Financial assets measured at fair value through OCI	(No. 9)	69		86	
Trade and other receivables	(No. 10)	2,411	402	2,644	758
Inventories	(No. 11)	319		303	
Contract assets	(No. 11)	1,574		1,086	
Current tax assets	(No. 12)	213		201	
Other current tax assets	(No. 13)	221		117	
Other current assets	(No. 14 and 30)	185	1	100	-
Total current assets		**6,743**		**6,211**	
Non-current assets					
Property, plant and equipment	(No. 15)	4,581		4,326	
Intangible assets	(No. 16)	753		702	
Investments accounted for using the equity method	(No. 17)	142		119	
Other investments	(No. 17)	1		-	
Deferred tax assets	(No. 18)	268		250	
Other non-current assets	(No. 19 and 30)	102	1	67	1
Total non-current assets		**5,847**		**5,464**	
Assets held for sale	(No. 31)	-		2	
TOTAL ASSETS		**12,590**		**11,677**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	(No. 20)	120		80	
Current portion of long-term debt	(No. 25)	69		225	
Trade and other payables	(No. 21)	2,571	58	2,674	49
Contract liabilities	(No. 21)	1,465	188	1,205	292
Income tax payables	(No. 22)	47		46	
Other current tax payables	(No. 23)	191		108	
Other current liabilities	(No. 24 and 30)	24	5	92	-
Total current liabilities		**4,487**		**4,430**	
Non-current liabilities					
Long-term debt	(No. 25)	2,929		2,646	
Provisions for contingencies	(No. 26)	340		330	
Provisions for employee benefits	(No. 27)	199		208	
Deferred tax liabilities	(No. 28)	35		18	
Other non-current liabilities	(No. 29 and 30)	1		9	
Total non-current liabilities		**3,504**		**3,211**	
TOTAL LIABILITIES		**7,991**		**7,641**	
SHAREHOLDERS' EQUITY					
Non-controlling interests	(No. 32)	41		74	
Saipem's shareholders' equity:	(No. 33)	4,558		3,962	
- share capital	(No. 34)	2,191		2,191	
- share premium reserve	(No. 35)	1,049		553	
- other reserves	(No. 36)	(44)		(122)	
- retained earnings		1,786		1,907	
- net profit (loss) for the year		(328)		(472)	
- negative reserve for treasury shares in portfolio	(No. 37)	(96)		(95)	
Total shareholders' equity		**4,599**		**4,036**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**12,590**		**11,677**	

(1) For an analysis of figures shown as 'of which with related parties', see Note 53 'Transactions with related parties'.

Income statement

(€ million)	Note	2017 Total	2017 of which with related parties [1]	2018 Total	2018 of which with related parties [1]
REVENUES					
Net sales from operations	(No. 40)	8,999	1,866	8,526	1,753
Other income and revenues	(No. 41)	39		12	
Total revenues		**9,038**		**8,538**	
Operating expenses					
Purchases, services and other costs	(No. 42)	(6,534)	(91)	(6,110)	(68)
Net reversals (impairments) of trade and other receivables	(No. 43)	(24)		(57)	
Payroll and related costs	(No. 44)	(1,618)		(1,522)	
Depreciation, amortisation and impairment	(No. 45)	(736)		(811)	
Other operating income (expense)	(No. 46)	-		(1)	
OPERATING RESULT		**126**		**37**	
Finance income (expense)					
Finance income		309	1	209	1
Finance expense		(617)		(268)	
Derivative financial instruments		85		(106)	
Total finance income (expense)	(No. 47)	**(223)**		**(165)**	
Income (expense) from investments					
Share of profit (loss) of equity accounted investments		(9)		(87)	
Other income (expense) from investments		-		(1)	
Total income (expense) from investments	(No. 48)	**(9)**		**(88)**	
RESULT BEFORE INCOME TAXES		**(106)**		**(216)**	
Income taxes	(No. 49)	(201)		(194)	
NET PROFIT (LOSS) FOR THE YEAR		**(307)**		**(410)**	
Attributable to:					
- Saipem		(328)		(472)	
- non-controlling interests	(No. 50)	21		62	
Earnings (losses) per share for the year attributable to Saipem (€ per share)					
Basic earnings (losses) per share	(No. 51)	(0.33)		(0.47)	
Diluted earnings (losses) per share	(No. 51)	(0.32)		(0.46)	

(1) For an analysis of figures shown as 'of which with related parties', see Note 53 'Transactions with related parties'.

Statement of comprehensive income

(€ million)	2017	2018
Net profit (loss) for the year	**(307)**	**(410)**
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	-	(1)
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans	-	-
Income tax relating to items that will not be reclassified	(1)	-
	(1)	**(1)**
Items that may be reclassified subsequently to profit or loss		
Change in the fair value of cash flow hedges	297	(100)
Change in the fair value of financial assets, other than investments, measured at fair value through OCI	(1)	(1)
Exchange rate differences arising from the translation into euro of financial statements currencies other than euro	(176)	40
Share of other comprehensive income of investments accounted for using the equity method	-	-
Income tax relating to items that will be reclassified	(73)	18
	47	**(43)**
Total other items of comprehensive income net of taxation	**46**	**(44)**
Total comprehensive income (loss) for the year	**(261)**	**(454)**
Attributable to:		
- Saipem Group	(279)	(518)
- non-controlling interests	18	64

Statement of changes in shareholders' equity

(€ million)	Saipem shareholders' equity															
	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Investments carried at fair value	Cash flow hedge reserve, net of tax	Fair value reserve financial instruments available for sale net of tax effects	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings (losses carried forward)	Net profit (loss) for the year	Negative reserve for treasury shares in portfolio	Total	Minority interest	Total shareholders' equity
Balance at December 31, 2015	**441**	**55**	**6**	**88**	**-**	**-**	**(267)**	**-**	**76**	**(18)**	**3,942**	**(806)**	**(43)**	**3,474**	**45**	**3,519**
2016 net profit (loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,087)**	**-**	**(2,087)**	**7**	**(2,080)**
Other items of comprehensive income																
Items that will not be reclassified subsequently to profit or loss																
Remeasurements of defined benefit plans for employees net of the tax effect	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
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	-	-	-	-	-	-	85	-	-	-	-	-	-	85	3	88
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	-	-	(44)	(1)	8	-	-	(37)	-	(37)
Changes in investments and securities at fair value	-	-	-	-	-	-	-	-	-	-	1	-	-	1	-	1
Total	**-**	**-**	**-**	**-**	**-**	**-**	**85**	**-**	**(44)**	**(1)**	**9**	**-**	**-**	**49**	**3**	**52**
Total comprehensive income (loss) for 2016	**-**	**-**	**-**	**-**	**-**	**-**	**85**	**-**	**(44)**	**(2)**	**9**	**(2,087)**	**-**	**(2,039)**	**10**	**(2,029)**
Transactions with shareholders						**-**										
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(36)	(36)
Retained earnings (losses)	-	(55)	(5)	-	-	-	-	-	-	-	(746)	806	-	-	-	-
Increase (reduction) of share capital	1,750	1,750	-	-	-	-	-	-	-	-	-	-	-	3,500	-	3,500
Capitalisation of costs of share capital increase net of taxes	-	-	-	-	-	-	-	-	-	-	(47)	-	-	(47)	-	(47)
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	-	-	-	(26)	(26)	-	(26)
Total	**1,750**	**1,695**	**(5)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(793)**	**806**	**(26)**	**3,427**	**(36)**	**3,391**
Other changes in shareholders' equity								**-**								
Recognition of fair value of incentive plans	-	-	-	-	-	-	-	-	-	-	5	-	-	5	-	5
Other changes	-	-	1	-	-	-	-	-	-	-	(4)	-	-	(3)	-	(3)
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	2	-	-	2	-	2
Total	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**4**	**-**	**4**
Balance at December 31, 2016	**2,191**	**1,750**	**2**	**88**	**-**	**-**	**(182)**	**-**	**32**	**(20)**	**3,161**	**(2,087)**	**(69)**	**4,866**	**19**	**4,885**
2017 net profit (loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(328)**	**-**	**(328)**	**21**	**(307)**
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	-	-	-	-	-	-	223	-	-	-	-	-	-	223	1	224
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	-	-	(187)	-	15	-	-	(172)	(4)	(176)
Share of other comprehensive income of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change to fair value financial instruments available for sale net of tax effects	-	-	-	-	-	-	-	(1)	-	-	-	-	-	(1)	-	(1)
Total	**-**	**-**	**-**	**-**	**-**	**-**	**223**	**(1)**	**(187)**	**-**	**15**	**-**	**-**	**50**	**(3)**	**47**

cont'd **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 year	Negative reserve for treasury shares in portfolio	Total		
Total	**-**	**-**	**-**	**-**	**-**	**-**	**223**	**(1)**	**(187)**	**-**	**15**	**-**	**-**	**50**	**(3)**	**47**
Total comprehensive income (loss) for 2017	**-**	**-**	**-**	**-**	**-**	**-**	**223**	**(1)**	**(187)**	**(1)**	**15**	**(328)**	**-**	**(279)**	**18**	**(261)**
Transactions with shareholders						**-**										
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7)	(7)
Retained earnings (losses)	-	(701)	-	-	-	-	-	-	-	-	(1,386)	2,087	-	-	-	-
Increase (reduction) of share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalisation of costs of share capital increase net of taxes	-	-	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	-	-	-	(27)	(27)	-	(27)
Total	**-**	**(701)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,387)**	**2,087**	**(27)**	**(28)**	**(7)**	**(35)**
Other changes in shareholders' equity								**-**								
Recognition of fair value of incentive plans	-	-	-	-	-	-	-	-	-	-	10	-	-	10	-	10
Other changes	-	-	-	-	-	1	-	-	1	-	(13)	-	-	(11)	11	-
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**	**-**	**(3)**	**-**	**-**	**(1)**	**11**	**10**
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**
2018 net profit (loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(472)**	**-**	**(472)**	**62**	**(410)**
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 through OCI	-	-	-	-	-	(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	-	-	-	-	-	-	(82)	-	-	-	-	-	-	(82)	-	(82)
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	-	-	-	-	-	-	-	-	46	-	(8)	-	-	38	2	40
Share of other comprehensive income of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**(82)**	**(1)**	**46**	**-**	**(8)**	**-**	**-**	**(45)**	**2**	**(43)**
Total comprehensive income (loss) for 2018	**-**	**-**	**-**	**-**	**-**	**(1)**	**(82)**	**(1)**	**46**	**-**	**(8)**	**(472)**	**-**	**(518)**	**64**	**(454)**
Transactions with shareholders																
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of non-controlling interests	-	-	(41)	-	-	-	-	-	-	-	-	-	-	(41)	(23)	(64)
Total	**-**	**(496)**	**(41)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**168**	**328**	**-**	**(41)**	**(31)**	**(72)**
Other changes in shareholders' equity																
Recognition of fair value of incentive plans	-	-	-	-	-	-	-	-	-	-	14	-	1	15	-	15
Other changes	-	-	-	-	-	-	1	(1)	1	-	(5)	-	-	(4)	-	(4)
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**(1)**	**1**	**-**	**9**	**-**	**1**	**11**	**-**	**11**
Balance at December 31, 2018	**2,191**	**553**	**(39)**	**88**	**-**	**-**	**(40)**	**(3)**	**(107)**	**(21)**	**1,907**	**(472)**	**(95)**	**3,962**	**74**	**4,036**

Cash flow statement

(€ million)	Note	2017	2018
Net profit (loss) for the year		(328)	(472)
Non-controlling interests		21	62
Adjustments to reconcile net profit (loss) for the year to net cash provided by operating activities:			
- depreciation and amortisation	(No. 45)	505	464
- net impairment (reversals) of tangible and intangible assets	(No. 45)	231	347
- share of profit (loss) of equity accounted investments	(No. 48)	9	87
- net (gains) losses on disposal of assets		(2)	4
- interest income		(7)	(6)
- interest expense		88	91
- income taxes	(No. 49)	201	194
- other changes		39	(66)
Changes in working capital:			
- inventories		58	21
- trade receivables		429	(272)
- trade payables		(397)	140
- provisions for contingencies		69	(43)
- contract assets and contract liabilities		(135)	230
- other assets and liabilities		53	183
Cash flow from working capital		*77*	*259*
Change in the provision for employee benefits		-	8
Dividends received		2	4
Interest received		6	6
Interest paid		(66)	(75)
Income taxes paid net of refunds of tax credits		(317)	(196)
Net cash provided by operating activities		**459**	**711**
of which with related parties (1)	(No. 53)	**1,906**	**1,425**
Investing activities:			
- tangible assets	(No. 15)	(253)	(467)
- intangible assets	(No. 16)	(9)	(18)
- investments	(No. 17)	(25)	(27)
- securities		(14)	(18)
- financing receivables		(4)	(30)
- change in payables and receivables in relation to investments and capitalised depreciation		-	-
Cash flow from investing activities		*(305)*	*(560)*
Disposals:			
- tangible assets		12	1
- consolidated subsidiaries and businesses		1	-
- investments		4	-
- financing receivables		6	8
Cash flows from disposals		*23*	*9*

(1) For an analysis of figures shown as 'of which with related parties', see Note 53 'Transactions with related parties'.

cont'd **Cash flow statement**

(€ million)	Note	2017	2018
Net cash used in investing activities [2]		**(282)**	**(551)**
of which with related parties [1]	(No. 53)	**1**	**-**
Proceeds from long-term debt		1,392	222
Repayments of long-term debt		(1,642)	(349)
Increase (decrease) in short-term debt		43	(45)
		(207)	**(172)**
Net capital contributions by non-controlling interests		(2)	-
Sale (purchase) of additional interests in consolidated subsidiaries		-	(64)
Dividend distribution		-	(15)
Sale (buy-back) of treasury shares		(27)	-
Net cash from financing activities		**(236)**	**(251)**
of which with related parties [1]	(No. 53)	**-**	**-**
Effect of changes in consolidation		-	-
Effect of exchange rate changes and other changes on cash and cash equivalents		(82)	14
Net cash flow for the year		**(141)**	**(77)**
Cash and cash equivalents - beginning of year	(No. 8)	**1,892**	**1,751**
Cash and cash equivalents - end of year	(No. 8)	**1,751**	**1,674**

(1) For an analysis of figures shown as 'of which with related parties', see Note 53 'Transactions with related parties'.
(2) Net cash used in investing activities included investments in certain financial assets to absorb temporary surpluses of cash or as part of our ordinary management of financing activities. Due to their nature and the fact that they are very liquid, these financial assets are netted against finance debt in determining net borrowings. For the definition of net borrowings, see the 'Financial and economic results' section of the 'Directors' Report'.
The cash flows of these investments were as follows:

(€ million)	2017	2018
Financing investments:		
- securities	(14)	(18)
- financing receivables	(3)	(30)
Disposals of financing investments:		
- financing receivables	4	8
Net cash flows from investments/disposals related to financing activities	**(13)**	**(40)**

Index of Notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of presentation

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

The consolidated financial statements at December 31, 2018 approved by Saipem's Board of Directors on March 11, 2019, were audited by the independent auditor EY SpA. As Saipem's main auditor, EY SpA is fully responsible for auditing the Group's consolidated financial statements. In those limited cases where other auditors operate, EY SpA also assumes responsibility for their work.

Amounts stated in financial statements and the notes thereto are in millions of euros.

2 Principles of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of Saipem SpA and its Italian and foreign direct and indirect subsidiaries.

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

A number of subsidiaries performing only limited operating activities (considered on both an individual and an aggregate basis) have not been consolidated. Their non-consolidation does not have a material impact[3] on the correct representation of the Group's total assets, liabilities, net financial position and results for the year. These interests are accounted for as described in the following section 'Equity method of accounting'.

Subsidiaries' values are included in the consolidated financial statements from the date on which control is transferred to the Group and up to the date on which control ceases, based on uniform accounting principles.

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

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

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

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

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

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

(2) The international accounting standards used in the preparation of the consolidated financial statements are essentially the same as those issued by the IASB and in force in 2018, since the current differences between the IFRS endorsed by the European Commission and those issued by the IASB relate to situations that do not affect the Group.

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

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

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

Joint arrangements

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method, as indicated in the section 'Equity method of accounting'.

A joint operation is an agreement for joint control in which the parties have rights to the assets and have obligations for the liabilities (so-called enforceable rights and obligations) relating to the agreement: the verification of the existence of enforceable rights and obligations requires the exercise of a complex judgement by Top Management and is made taking into consideration the characteristics of the corporate structure, the agreements between the parties, as well as any other facts and circumstances that are relevant for the purposes of verification. Saipem's share of the assets, liabilities, revenues and expenses of joint operations is recognised in the consolidated financial statements on the basis of the actual rights and obligations arising from the contractual arrangements. After initial recognition, the assets, liabilities, revenues and expenses relating to a joint operation are accounted for in accordance with the applicable accounting standards. Joint operations, that are separate legal entities non-material, are accounted for using the equity method or, if this does not have a significant impact on total assets, liabilities, net financial position and results for the year, measured at cost, adjusted for impairment.

Investments in associates

An associate is an entity over which Saipem has significant influence, which is the power to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies. Investments in associates are accounted for using the equity method, as indicated in the section, 'Equity method of accounting'.

Consolidated companies, non-consolidated subsidiaries, joint ventures, investments in joint operations and associates are indicated in the section 'Scope of consolidation'. After this section, there follows a list detailing the changes in the consolidation area from the previous year.

Financial statements of consolidated companies are audited by independent auditors, who also examine and certify the information required for the preparation of the consolidated financial statements.

Equity method of accounting

Investments in subsidiaries excluded from consolidation, in joint ventures and in associates are accounted for using the equity method[5].

In accordance with the equity method of accounting, investments are initially recognised at purchase cost. Any difference between the cost of the investment and the Company's share of the fair value of the net identifiable assets of the investment is treated in the same way as for business combinations. The allocation, made on a provisional basis at the initial recognition date, can be adjusted, retroactively, within the following twelve months to take into account new information regarding facts and circumstances existing at the date of initial recognition. Subsequently, the carrying amount is adjusted to reflect: (i) the post-acquisition change in the investor's share of net assets of the investee; (ii) the investor's share of the investee's other comprehensive income. Shares of changes in the net assets of investees that are not recognised in profit or loss or other comprehensive income of the investee are recognised in the income statement when they reflect the substance of a disposal of an interest in said investee. Dividends received from an investee reduce the carrying amount of the investment. When using the equity method, the adjustments required for the consolidation process are applied. When there is objective evidence of impairment (e.g. significant breaches of contracts, serious financial difficulties, the high probability of insolvency of the counterparty, etc.), the recoverability is tested by comparing the carrying amount and the related recoverable amount determined adopting the criteria indicated in the item 'Tangible assets'. The losses deriving from the application of the equity method exceeding the book value of the investment, recorded in the income statement as item 'Income (expense) from investments', are allocated to any financing receivables granted to the company whose repayment is not planned or it is not probable in the foreseeable future (the so-called long-term interest) and which basically represent a further investment in the company.

If it does not result in a misrepresentation of the Company's financial condition and consolidated results, subsidiaries excluded from consolidation, joint ventures and associates are accounted for at cost, adjusted for impairment charges. When an impairment loss no longer exists, a reversal of the impairment loss is recognised in the income statement within 'Other income (expense) from investments'.

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

A disposal of interests that results in a loss of joint control or significant influence causes recognition in the income statement of: (i) any gains or losses calculated as the difference between the consideration received and the carrying amount of the share of net assets disposed of; (ii) any gains or losses attributable to the adjustment of any investment retained at its fair value[6]; (iii) any amounts recognised in other comprehensive income in relation to the investee that may be reclassified subsequently to profit or loss[7]. Any investment retained in the investee is recognised at its fair value at the date when joint control or significant influence are lost and shall be accounted for in accordance with the applicable measurement criteria.
The investor's share of any losses exceeding the carrying amount and any long-term interest is recognised in a specific provision to the extent that that investor is required to fulfil legal or implicit obligations towards the investee or to cover its losses.

Business combination

Business combination transactions are recognised using the acquisition method. The amount transferred in a business combination is determined at the date the controlling interest is acquired and is equivalent to the fair value of the assets transferred, of liabilities incurred or assumed, and of any equity instruments issued by the acquirer. Costs directly attributable to the transaction are recognised in the income statement when they are incurred.
The shareholders' equity in consolidated companies is determined by attributing to each of the balance sheet items its fair value at the date on which control is acquired[8], except for where IFRS require otherwise. The excess of the purchase price of an acquired entity over the total fair value assigned to assets acquired and liabilities assumed is recognised as goodwill. Negative goodwill is recognised in the income statement.
In the case of partial control being obtained, the share of equity net of non-controlling interests is determined on the basis of the relevant share of current value attributed to assets and liabilities on the date on which control of the company was obtained, excluding any goodwill that can be attributed to the value (so-called partial goodwill method). Alternatively, the entire amount of goodwill is recognised that was generated by the acquisition, thus considering also the share attributable to the non-controlling interests (so-called full goodwill method); in the latter case the non-controlling interests are stated at their overall fair value, thus also including the goodwill of the non-controlling interests[9]. The choice of either than partial goodwill or the full goodwill method is made for each individual business combination.
Where control of a company is achieved in stages, the purchase cost is determined by adding the fair value of the previously held ownership interest and the consideration paid for the additional ownership interest. Any difference between the fair value of the previous ownership interest and its carrying amount is recognised in the income statement. In addition, when control of a company is obtained, any amounts recognised in other comprehensive income in relation to the company are taken to profit or loss. Amounts that may not be reclassified to profit or loss are recognised in equity.
Where provisional amounts have been recorded for the assets and liabilities of an acquiree during the reporting period in which a business combination occurs, these amounts are retrospectively adjusted within one year of the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.
The acquisition of interests in a joint operation that represents a business is recognised, for applicable aspects in the same way as provided for business combination.

Intra-group transactions

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

Foreign currency translation

The financial statements of investees operating in a currency other than the euro, which is the Group's presentation currency, have been converted into euros by applying: (i) to balance sheet items the exchange rates obtaining at year end; (ii) to shareholders' equity the historical exchange rates; (iii) to the income statement and the cash flow statement, the average exchange rates over the ear (source: Banca d'Italia).
The cumulative exchange rate differences resulting from the conversion of the financial statements of subsidiaries operating in a currency other than the euro, and deriving from the application of different exchange rates for payables and receivables, are recognised in

(6) If the investment retained continues to be measured using the equity method, it is not remeasured at fair value.
(7) Conversely, any amounts recognised in other comprehensive income in relation to the former joint venture or associate that may not be reclassified to profit or loss are transferred directly to retained earnings.
(8) The criteria used for determining fair value are described in the section 'Fair value measurement'.
(9) The decision to apply the partial or full goodwill method is also made for business combinations where negative goodwill is taken to the income statement (i.e. a gain on bargain purchase).

shareholders' equity and in the income statement under the item 'Cumulative currency translation differences' (included in 'Other reserves') for the portion relating to the Group's share[10]. The currency translation differences reserve is charged to the income statement when an investment is fully disposed of or when control, joint control or significant influence is lost. In such circumstances, the differences are taken to profit or loss under the item 'Other income (expense) from investments'. In the event of a partial disposal that does not result in the loss of control, the portion of exchange differences relating to the interest sold is recognised under minority interest in equity.
In the event of a partial disposal that does not result in the loss of joint control or significant influence, the portion of exchange differences relating to the interest disposed of is taken to profit or loss. The repayment of the capital, carried out by a subsidiary operating in a currency other than the euro, without changing the equity investment held, entails charging the corresponding portion of the exchange rate differences to the income statement.
The financial statements translated into euros are those denominated in the functional currency, i.e. the local currency or the currency in which most financial transactions and assets and liabilities are denominated.
The exchange rates that have been applied for the translation of financial statements in foreign currencies are as follows:

Currency	Exchange at Dec. 31, 2017	Exchange at Dec. 31, 2018	2018 average exchange rate
US Dollar	1.1993	1.145	1.181
British Pound Sterling	0.88723	0.89453	0.88471
Algerian Dinar	137.8343	135.4881	137.6525
Angolan Kwanza	198.906	353.021	297.38
Argentine Peso	22.931	43.1593	32.9094
Australian Dollar	1.5346	1.622	1.5797
Brazilian Real	3.9729	4.444	4.3085
Canadian Dollar	1.5039	1.5605	1.5294
Croatian Kuna	7.44	7.4125	7.4182
Egyptian Pound	21.3309	20.5108	21.0414
Ghanaian New Cedi	5.4313	5.6218	5.5222
Indian Rupee	76.6055	79.7298	80.7332
Indonesian Rupee	16,239.12	16,500	16,803.22
Kazakhstan Tenghè	397.96	437.52	406.91
Malaysian Ringgit	4.8536	4.7317	4.7634
Nigerian Naira	367.046	350.9425	360.9013
Norwegian Kroner	9.8403	9.9483	9.5975
Peruvian New Sol	3.8854	3.863	3.8793
Qatari Riyal	4.3655	4.1678	4.2987
Romanian New Leu	4.6585	4.6635	4.654
Russian Rouble	69.392	79.7153	74.0416
Saudi Arabian Riyal	4.4974	4.2938	4.4286
Singapore Dollar	1.6024	1.5591	1.5926
Swiss Franc	1.1702	1.1269	1.155

3 Accounting policies

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

Cash and cash equivalents

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

Inventories

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

Contract assets and contract liabilities

Contract assets and contract liabilities from work in progress are stated on the basis of agreed contract revenue determined with reasonable certainty, recognised in proportion to the stage of completion of contract activity.
Given the nature of the contracts and the type of work, progress is determined through the use of an input method based on the percentage of

(10) The share of non-controlling interest in the cumulate exchange rate differences resulting from the translation of subsidiaries' financial statements operating in a currency other than the euro is recognised under 'Non-controlling interests' in equity.

costs incurred with respect to the total contractually estimated costs (cost-to-cost method).
Adjustments made for the economic effects of using this method on net sales from operations, to reflect differences between amounts earned based on the percentage of completion and recognised revenues, are included under long-term contracts if positive or under contract liabilities if negative.
The valuation of long-term contracts considers all directly related costs, contractual risks and contract revision clauses, where they can be objectively determined.
Requests for additional payments deriving from a change in the work are included in the total amount of revenues when the client has approved the scope and/or the price. At the same time, other claims deriving, for example, from additional costs incurred for reasons attributable to the client are included in the total amount of revenues when it is probable that the counterparty will approve the scope and/or the price.
Contractual advances from the client are recognised at the exchange rate on the date of payment.

Tangible assets

Tangible assets are recognised using the cost model and stated at their purchase or production cost including any costs directly attributable to bringing the asset into operation. In addition, when a substantial amount of time is required to make the asset ready for use, the purchase price or production cost includes borrowing costs that theoretically would have been avoided had the investment not been made.
Revaluation of tangible assets is not allowed, not even in application of specific laws. The exception is for tangible assets which were written down in previous years, as better explained below.
Assets held under finance leases or under leasing arrangements that do not take the legal form of a finance lease but substantially transfer all the risks and rewards of ownership of the leased asset are recognised, on the inception date of the contract, at fair value of the asset, net of grant due to the lessee or, if lower, at the present value of the minimum lease payments, within tangible assets. A corresponding financial debt payable to the lessor is recognised as a financial liability.
Expenditures on renewals, improvements and transformations that extend the useful lives of the related asset are capitalised when it is likely that they will increase the future economic benefits expected from the asset. Also items purchased for safety or environmental reasons are capitalised, even if they do not directly increase the future economic benefits of the existing assets, as they are necessary for carrying out company business.
Depreciation of tangible assets begins when the asset is ready for use, in other words when it is in the place and in the conditions necessary for it to be able to operate according to the planned modalities.
Tangible assets are depreciated systematically using a straight-line method over their useful life, which is an estimate of the period over which the assets will be used by the company. When the tangible asset comprises more than one significant element with different useful lives, each component is depreciated separately. The depreciable amount of an asset is its cost less the estimated residual value at the end of its useful life, if this is significant and can be reasonably determined. Land is not depreciated, even where purchased with a building. Tangible assets held for sale are not depreciated either (see 'Non-current assets held for sale and discontinued operations'). Changes to depreciation schedules related to changes in the expected future useful life of an asset, the residual value or in the expected pattern of consumption of the future economic benefits flowing from an asset are recognised in the income statement in the year they occur.
Replacement costs of identifiable components in complex assets are capitalised and depreciated over their useful life. The residual book value of the component that has been replaced is charged to the income statement. Improvements to leased assets are depreciated during the useful life of the improvements or, if shorter, during the residual life of the lease, taking into account the possible period of renewal if the renewal depends only on the lessor and is virtually certain. Ordinary maintenance and repair expenses, not including the replacement of identifiable components and that repair but do not increase the performance of the goods, are charged to the statement of income for the year in which the expenses are incurred.
The carrying value of tangible assets is reviewed for impairment whenever events indicate that the carrying amounts for those assets may not be recoverable. The recoverability of an asset is assessed by comparing its carrying value with the recoverable amount, represented by the higher of fair value less costs to sell and value in use. Valuation is carried out for each cash generating unit (CGU) corresponding to a single asset or to the smallest identifiable group of assets that generates independent cash inflows from their continuous use.
Value in use is the present value of the future cash flows expected to be derived from the use of the CGU and, if significant and reasonably determinable, from its disposal at the end of its useful life, net of disposal costs. Expected cash flows are determined, taking also into consideration results for the period, on the basis of reasonable and documented assumptions that represent the best estimate of the future economic conditions during the remaining useful life of the CGU, giving more importance to independent assumptions while taking into account the specificities of Saipem's business. Discounting is carried out at a rate that reflects current market assessments of the time value of money and the risks specific to the asset that are not reflected in the estimate of future cash flows.

Please note that where appropriate, the so-called 'country risk' component is included in the estimate of expected cash flows. Specifically, the discount rate used is the Weighted Average Cost of Capital (WACC) defined on the basis of the Capital Asset Pricing Model (CAPM) methodology. 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 WACC is estimated for the specific business segments to which the single CGUs belong.
Value in use is determined using post-tax cash flows, discounted at a post-tax discount rate as this method results in values similar to those resulting from discounting pre-tax cash flows at a pre-tax discount rate deriving, through an iteration process, from a post-tax valuation.
In absence of impairment indicators and, at the same time, in presence of indicators suggesting that the reasons for past impairment ceased to exist, the impairment loss is reversed to the income statement as income from revaluation (reversal of impairment loss). The value of the asset is written back to the lower of the recoverable amount and the original book value before impairment, less the depreciation that would have been charged had no impairment loss been recognised.
Tangible assets are eliminated at the moment of their disposal or when no future economic benefit is expected from their use or disposal; the relative profit or loss is reported in the income statement.
Tangible assets destined for specific operating projects, for which no further future use is envisaged due to the characteristics of the asset itself or the high usage sustained during the execution of the project, are amortised over the duration of the project.

Intangible assets

Intangible assets are identifiable assets without physical substance, controlled by the company and capable of producing future economic benefits, and goodwill acquired in business combinations. An asset is classified as intangible when management is able to distinguish it clearly from goodwill. This condition is normally met when: (i) the intangible asset arises from legal or contractual rights, or (ii) the asset is separable, i.e. can be sold, transferred, licenced, rented or exchanged, either individually or as an integral part of other assets. An entity controls an intangible asset if it has the power to obtain the future economic benefits deriving from the underlying resource and to restrict the access of others to those benefits. Intangible assets are stated at cost as determined with the criteria used for tangible assets.
Revaluation of intangible assets is not allowed, not even in application of specific laws.
Intangible assets with a defined useful life are amortised systematically over their useful life estimated as the period over which the assets will be used by the company. The amount to be amortised and the recoverability of their book value are determined in accordance with the criteria described in the section 'Tangible assets'.
Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.
Goodwill is tested for impairment at the level of the cash generating unit (CGU) to which goodwill relates. The CGU is the smallest identifiable group of assets (including goodwill itself) that generates cash inflows from continuing use, and that are largely independent of the cash inflows from other assets or groups of assets and on the basis of which top management assesses the profitability of the business. If the carrying amount of the cash generating unit, including goodwill allocated thereto, determined by taking into account the impairment of current and non current assets that are part of the CGU, exceeds the CGU's recoverable amount[11], the excess is recognised as impairment. The impairment loss is first allocated to reduce the carrying amount of goodwill. Any remaining excess is allocated on a pro-rata basis to the carrying value of the other assets with defined useful life that form the cash generating unit. Impairment charges against goodwill are not reversed[12].
Intangible assets are eliminated at the moment of their disposal or when no future economic benefit is expected from their use or disposal; the relative profit or loss is reported in the income statement.

Costs of technological development activities

Costs of technological development activities are capitalised when the company can demonstrate that:
(a) there is the technical capacity to complete the asset and make it available for use or sale;
(b) there is the intention to complete the asset and make it available for use or sale;
(c) it is possible to make the asset available for use or sale;
(d) it can be shown that the asset is able to produce future economic benefits;
(e) technical, financial and other resources are available to complete development of the asset and make the asset available for use or sale;
(f) the cost attributable to the intangible asset can be reasonably determined.

Grants

Grants related to assets are recorded as a reduction of the purchase price or production cost of the related assets when there is

(11) For the definition of recoverable amount see 'Tangible assets'.
(12) Impairment charges are not reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

reasonable assurance that all the required conditions attached to them, agreed upon with government entities, will be met.
Grants related to income are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

Financial assets
Based on the characteristics of the instrument and on the adopted business model, financial assets are classified as follows: (i) financial assets evaluated at amortised cost; (ii) financial assets evaluated at fair value with changes recognised under other items of comprehensive income (hereinafter also OCI); (iii) financial assets evaluated at fair value with changes recognised on the income statement.
The initial recognition is made at fair value; for trade receivables lacking a significant financial component, the initial valuation is represented by the transaction price.
Subsequent to the initial recognition, the financial assets that generate contractual cash flows exclusively representative of payments of capital and interest are valued at the amortised cost if such assets are expected to be held for the sole purpose of collecting the cash flows contractually agreed (so-called business model of 'hold to collect').
The application of the amortised cost method requires then the recognition in the income statement of the interest income, determined on the basis of the effective interest rate of the exchange rate differences and of any possible write-downs[13] (see item 'Write-down of financial assets').
On the other hand, financial assets representative of debt instruments whose business model provide for the possibility of either collecting the contractual cash flows or realising capital gains from sale (business model called 'hold to collect and sell') are valued at the fair value with attribution of the effects to 'Other Comprehensive Income' (hereafter also FVTOCI). In this case, recognition is made as follows: (i) in the income statement are recognised the interest income, calculated using the effective interest rate, the exchange rate differences and the write-downs (see item 'Write-down of financial assets'); (ii) into shareholders' equity under the Other Comprehensive Icome (OCI) the variation of fair value of the instrument. The total amount of the variations of fair value, recognised under the shareholders' equity reserve, is reversed to the income statement upon derecognition of the instrument.
A financial asset representative of a debt instrument which has not been evaluated at the amortised cost or at the FVTOCI is evaluated at fair value with attribution of the effects to the income statement (hereafter FVTPL); financial assets held for trading pertain to this category. Accrued interest income on financial assets held for trading is included in the total fair value measurement of the asset and is recognised as 'Finance income (expense)'.

Write-down of financial assets
The assessment of the recoverability of financial assets representative of debt instruments not evaluated at fair value with effects to the income statement is made on the basis of the so-called expected credit loss model.
In particular, the expected losses are generally determined on the basis of the product between: (i) the exposure claimed toward the counterparty net of the relative mitigations (so-called Exposure at Default or EAD); (ii) the probability that the counterparty will not fulfil its payment obligations (so-called Probability of Default or PD); (iii) the estimate, in percentage, of the asset share that will not be recovered in case of counterparty default (so-called Loss Given Default or LGD).
The management model adopted by the Group envisages the simplified approach for trade receivables as they do not contain a significant financial component. This approach requires the valuation of the provision to cover losses for an amount equal to the expected losses over the entire life of the receivable. This approach uses the probability of default of customers based on observable market data and on assessments collected by info-providers for the quantification of expected losses. Alongside the allocations made to the provision for bad debt after reviewing each expired receivable, which effectively already discounts a prospective view of the projects, an assessment is made of the creditworthiness of the client. This assessment performed at Corporate level on the portfolio of 'in bonis' receivables and communicated to the companies to enable them to quantify and recognise the effects in their interim reporting.
Specifically, the Saipem model operates as follows:
- the Exposure at Default (EAD) of Saipem comprehends trade receivables (including allocations) and contract works and considers the effects of mitigation capable of reducing the exposure (debit items that can be used to compensate, advance payments, etc.), excluding in particular disputed receivables from the calculation as subject to specific technical-legal valuations. Receivables of a financial nature (securities and bonds held by the Group and valued at the amortised cost) are included in the assessment;
- with regard to identification of the time of Default, the methodology determines it conventionally as the lesser between the date in which the client's insolvency is declared and the term of 365 days from the receivable due date. This term is coherent with the dynamics of the active business cycle of contract works in which Saipem operates;
- the Probability of Default (PD) is calculated on the observable market data (credit spread on

(13) Receivables and other financial assets valued at the amortised cost are reported net of the write-down fund.

bond issues, Credit Default Swaps, etc.) gathered by qualified info-providers. It is considered equal to 100% at the time of Default;
- to quantify the Loss Given Default (LGD), the approach applied is based on the market standards which consider the Recovery Ratio (RR) 40% of the exposure; it follows that the LGD is calibrated at (100%-RR) that is (100%-40%) → 60%.

Trade receivables and other receivables are presented in the balance sheet net of the relative write-down provision. Write-downs of these receivables are recognised in the income statement, net of any reversal of value, under the heading of 'Net reversals (impairments) of trade and other receivables'.

Minority interest

Financial assets representative of minority investments, as they are not held for purposes of trading, are valued at fair value with assignment of the effects to the shareholders' equity reserve relative to the other components of net profit, without providing for their reassignment to the income statement in case of sale; on the other hand, any dividends deriving from those investments are recognised to the income statement under the heading of 'Income (costs) on equity investments'. Assessment at cost of a minority equity investment is permitted in the limited cases in which the cost is an adequate estimate of the fair value.

Derivatives and hedge accounting

A derivative is a financial instrument which has the following characteristics: (i) its value changes in response to the changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, a price or rate index, a credit rating or other variable; (ii) it requires no initial net investment or little investment; (iii) it is settled at a future date.

Derivative financial instruments, including embedded derivatives that are separated from the host contract, are assets and liabilities recognised at their fair value.

Consistently with its business requirements, Saipem classifies derivatives as hedging instruments whenever possible. The fair value of derivative financial instruments incorporates the adjustments that reflect the non-performance risk of the counterparties of the transaction (see next section 'Fair value measurement'). The companies of the Group underwrite the intercompany derivatives with Saipem Finance International BV (SAFI) with the objective of hedging the exchange rate risk arising from future and highly probable revenues and costs in foreign currency. SAFI, in turn, in an operational optimisation perspective, performs a role of consolidation and netting of the required intercompany derivatives and proceeds with their negotiation on the market.

The intercompany derivatives negotiated by the companies with SAFI are considered cash flow hedges for highly probable forecast transactions whenever the conditions are met for the application of hedge accounting. The hedged item is identified in the revenues and costs in foreign currency.

As part of the strategy and goals defined for risk management, the qualification of operations for hedges requires: (i) the existence of an economic relationship between the hedged item and the hedging instrument; (ii) that credit risk of the hedging instrument or the hedged item does not dominate value changes resulting from the economic relationship; (iii) the definition of a hedge ratio coherent with the objectives of risk management, in the frame of the defined risk management strategy, providing where necessary for the appropriate rebalancing actions.

The amendment of risk management objectives or the elimination of the conditions outlined above for hedge accounting qualification, will result in the prospective discontinuation, either total or partial, of the hedge.

When the derivatives are aimed at hedging the risk of changes in cash flows of the hedged item (cash flow hedge; for example hedging the variability in cash flows of assets/liabilities due to exchange rate fluctuations), the changes in the fair value of the derivatives considered effective are initially recognised in the shareholders' equity reserve pertaining to the other items of comprehensive income and are subsequently recognised in the income statement consistent with the economic effects of the hedged item. When derivative contracts hedge the cash flow variation risk of the hedged item, they are designated against exposure to variability arising from the risks that may affect the income statement and expected financial flows. These risks are generally associated with an asset or liability that will be recognised in the financial statements (such as future payments on variable rate debts) or future revenue and costs considered highly probable (so-called 'highly probable forecast transactions') such as the cash flows connected with contract revenue and costs.

Changes in the fair value of derivatives which do not satisfy the conditions for being qualified as hedges, including any ineffective components of the derivatives, are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and foreign currency derivatives are recognised in the income statement under 'Finance income (expense)'; conversely, changes in the fair value of non-hedging commodity derivatives are recognised in the income statement under 'Other operating income (expense)'.

Assets held for sale and discontinued operations

Non-current assets and current and non-current assets included within disposal groups, whose carrying amount will be recovered principally through a sale transaction rather than through

their continuing use, are classified as held for sale. This condition is considered met when the sale is highly probable and the asset or disposal group is available for immediate sale in its current condition. When the sale of a subsidiary is planned and this will lead to loss of control, all of its assets and liabilities are classified as held for sale. This applies whether or not an interest is retained in the former subsidiary after the sale.
Non-current assets held for sale, current and non-current assets included within disposal groups and liabilities directly associated with them are recognised in the balance sheet separately from the entity's other assets and liabilities.
Immediately prior to classification as being held for sale, the assets and liabilities that are part of a group being disposed of are valued according to the accounting standards applicable to them. Subsequently, non-current assets held for sale are not depreciated and are measured at the lower of the fair value less costs to sell and their carrying amount.
The classification of an equity-accounted investment, or of a portion thereof, as held for sale requires the suspension of the application of this method of accounting in relation to the entire investment or to the portion thereof. In such cases, valuation is the lower value between the carrying amount which derives from the application of the equity method equity method at the date of reclassification and fair value. Any retained portion of the investment that has not been classified as held for sale is accounted for using the equity method until the conclusion of the sale plan. After the disposal takes place, the retained interest is accounted for using the applicable measurement criteria indicated under 'Minority interests', unless it, in relation to its classification, continues to be accounting for using the equity method.
Any difference between the carrying amount of non-current assets and the fair value less costs to sell is taken to the income statement as an impairment loss; any subsequent reversal is recognised up to the cumulative impairment losses, including those recognised prior to qualification of the asset as held for sale.
Non-current assets classified as held for sale and the groups being disposed of are a discontinued operation if, alternatively: (i) they represent a separate major line of business or geographical area of operations; (ii) they are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; (iii) they are a subsidiary acquired with a view to resale. Profit or loss of discontinued operations, as well as any gains or losses on their disposal are reported separately in the income statement, net of any tax effects. The results of discontinued operations are also reported in the comparative figures for prior years.
When events occur that make it impossible to classify the non-current assets or groups being disposed of as held for sale, they are reclassified in the respective items of the balance sheet and recognised at the lesser between: (i) the book entry value at the time of classification as held for sale, adjusted by the amortisations, write-downs and recoveries of value that would be reported if the assets or groups being disposed of had not been qualified as held for sale; and (ii) the recoverable value at the time of reclassification. Likewise, in case of interruption of the plan of sale, recalculation of the values from the time of classification as held for sale/discontinued operation also involves the equity investments, or their shares, previous classified as held for sale/discontinued operation.

Financial liabilities

Financial liabilities, other than derivative instruments, are initially recognised at the fair value of the amount received, net of direct transaction costs, and are subsequently measured using the amortised cost method (see previous section 'Financial assets').

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset in the balance sheet when they can be legally offset in the current year and it is intended to offset on a net basis (i.e. to realise the asset and remove the liability simultaneously).

Derecognition of financial assets and liabilities

Financial assets that have been transferred are derecognised from the balance sheet when the contractual rights to the cash flows from the asset are extinguished or expire or are transferred outright to third parties. Financial liabilities are eliminated when they have been settled, or when the contractual condition has been fulfilled or cancelled or when it has expired.

Provisions for contingencies

Provisions for contingencies concern risks and charges of a definite nature and whose existence is certain or probable but for which at year-end the timing or amount of future expenditure is uncertain. Provisions are recognised when: (i) there is a present obligation, either legal or constructive, as a result of a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; (iii) a reliable estimate can be made of the amount of the obligation. Provisions represent the best estimate of the expenditure required to settle the obligation or to transfer it to third parties at the balance sheet date. The amount recognised for onerous contracts is the lower of the cost necessary to fulfil the contract obligations, net of the economic benefits expected to be received under it, and any compensation or penalties arising from failure to fulfil these obligations. The revised estimates of the funds are assigned to the same item of the income statement previously used for the provision. Where the effect of the time value of money is material and the payment dates of the obligations can be reliably estimated, the provisions should be discounted using a pre-tax

discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as 'Finance income (expense)'.
The losses expected on completion of an order are recognised in their entirety in the year in which they are considered probable and are allocated among the funds for risks and costs.
The costs that the company expects to bear to carry out restructuring plans are recognised when the company formally defines the plan and the interested parties have developed a valid expectation that the restructuring will occur.
In the notes to the consolidated financial statements, the following contingent liabilities are described: (i) possible, but not probable obligations arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company; (ii) present obligations arising from past events whose amount cannot be measured with sufficient reliability or whose settlement will probably not require an outflow of resources embodying economic benefits.

Employee benefits

Employee benefits are the remuneration paid by the company for the work done by the employee or by virtue of the termination of employment.
Post-employment benefit plans, including constructive obligations, are classified as either 'defined contribution plans' or 'defined benefit plans', depending on the economic substance of the plan as derived from its principal terms and conditions. In the first case, the company's obligation, which consists of making payments to the State or to a trust or fund, is determined on the basis of the contributions due.
The liabilities arising from defined benefit plans, net of any plan assets, are determined on the basis of actuarial assumptions and charged on an accruals basis during the employment period required to obtain the benefits.
The net interest, which is recognised in profit or loss, includes the expected return on plan assets and the interest cost. Net interest is determined by applying the discount rate for liabilities to liabilities net of any plan assets. The net interest on defined benefit plans is posted to 'Finance income (expense)'.
Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses arising from changes in actuarial assumptions or from experience adjustments and the return on plan assets excluding amounts included in net interest, are recognised in the statement of other comprehensive income. Remeasurements of net liabilities for defined benefits, recognised in the shareholders' equity reserve pertaining to the other components of the comprehensive income statement, are not subsequently reclassified to the income statement.
Long-term benefits obligations are determined by adopting actuarial assumptions. The effects of remeasurement are taken to profit or loss in their entirety.

Share-based payment

Coherently with the substantial nature of retribution that it has, the cost of labour includes the costs of programmes of incentives with share-based payment. The cost of the incentive is calculated with reference to the fair value of the instruments attributed and to the forecast of the number of shares that will effectively be assigned; the portion applicable to the year is determined pro-rata temporis over the period to which the incentive refers (i.e. vesting period and possible period of co-investment[14]), that is the period between the date of attribution and the date of effective assignment.
The plans provide as conditions for distribution of the shares the attainment of the business and/or market goals; when such attainment is also connected to conditions other than those of the market, the estimate relative to these conditions is reflected by adjusting, along the vesting period, the number of shares expected to be effectively assigned.
The fair value of the shares underlying the incentive plan is determined according to the provisions of the international accounting standards, particularly by the IFRS 2, using models provided by info-providers and is not subject to adjustment in subsequent years. At the end of the vesting period, if the plan has not assigned shares to the participants due to failure to achieve the performance conditions, the portion of the cost pertaining to market conditions is not subject to reversal onto the income statement.

Treasury shares

Treasury shares include those held at the service of share-based incentive programmes and are recognised at cost and entered at liabilities in the shareholders' equity. Gains or losses from the subsequent sale of treasury shares are recorded as an increase (or decrease) in equity.

Revenues from contracts with customers

The recognition of revenues from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligation identified on the basis of the 'stand alone' selling price of each item of goods or each service; (v) recognition of the

(14) The vesting period is the period between the date of the award and the date on which the shares are assigned. The co-investment period is the two-year period, beginning the first day after the end of the vesting period, applicable only to the beneficiaries identified as strategic resources in order to meet performance conditions.

revenue when the relative performance obligation has been fulfilled, or at the time of transfer to the customer of the goods or services promised; the transfer is considered complete when the customer obtains control of the goods or services, which may continue over time, as in the case of contractual assets from a long-term order assessment, or at a specific point in time.
In the presence of contracts for the concession of licences and patents, the book entry of the revenue must be valued differently depending on whether it concerns the transfer of a 'right of use' or of a 'right of access'.
In the former case, there is a performance obligation toward the customer which is complete upon issue, which required recognition of the revenues 'at a point in time', while in the latter case of the right to access by the customer during the period of operation of the licence, this creates a performance obligation that is satisfied over a period of time, and the revenues are thus likewise recognised to the order 'over time'.
When hedged by derivative contracts qualifying for 'hedge accounting', revenues denominated in foreign currencies are translated at the contracted rates. Otherwise, they are translated at the exchange rate prevailing at year-end. The same method is used for any costs in a foreign currency. The allocation of revenues relative to services partially rendered are recognised for the portion matured, if it is possible to reliably determine stage of completion and there is no significant uncertainty about the amount and existence of the income; otherwise, they are recognised within the limits of the recoverable costs incurred. Allocations for invoices to be issued, the amounts of which are contracted in a foreign currency, are entered in euro at the rate of exchange reported as of the data of ascertaining the stage of the work progress jointly with the client (WP acceptance); this value is adjusted to take account of the exchange rate differential accrued on the coverages that qualify as 'hedge accounting'.
Payments received or to be received on behalf of third parties are not considered revenues.

Expenses

Costs are recognised when relative to goods received and services rendered.
Operating lease payments are recognised in the income statement over the length of the contract.
Labour costs comprise remuneration paid, provisions made to pension funds, accrued holidays, national insurance and social security contributions in compliance with national contracts of employment and current legislation.
The costs for the acquisition of new knowledge or discoveries, the study of products or alternative processes, new techniques or models, the planning and construction of prototypes or any other costs incurred for other scientific research activities or technological development, are generally considered current costs and expensed as incurred. These costs are capitalised (see 'Tangible assets') when they meet the requirements listed under 'Costs of technological development activities'.
Costs are capitalised and amortised when directly linked to the purchase of specific equipment and to the use of an asset on a specific project. The amortisation rates are then included in the progress on contractual activities over the duration of the project.
Bidding costs are fully expended in the year in which they are incurred.

Exchange rate differences

Revenues and costs associated with transactions in currencies other than the functional currency are translated into the functional currency by applying the exchange rate at the date of the transaction.
Monetary assets and liabilities in currencies other than the functional currency are converted by applying the year-end exchange rate. The effect is recognised in the income statement under 'Finance income (expense)'. Non-monetary assets and liabilities denominated in currencies other than the functional currency valued at cost are translated at the exchange rate as at the date of initial recognition. Non-monetary assets that are remeasured at fair value (i.e. at their recoverable amount or realisable value), are translated at the exchange rate applicable on the date of remeasurement.

Dividends

Dividends are recognised at the date of the general Shareholders' Meeting in which they were declared, except when the sale of shares before the ex-dividend date is certain.

Income taxes

Current income taxes are determined on the basis of estimated taxable income. The estimated liability is recognised in 'Income tax payables'. Current income tax assets and liabilities are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.
Deferred tax assets or liabilities are recognised for temporary differences between the carrying amounts and tax bases of assets and liabilities, based on tax rates and tax laws applicable for the years in which the temporary difference is annulled, that have been approved or substantively approved at the closing date of the year to which the financial statements refer. Deferred tax assets are recognised when their recovery is considered probable. The recoverability of deferred taxes is considered probable when it is expected that sufficient taxable profit will be available in the periods in which the temporary differences reverse against which deductible temporary differences can be utilised. Similarly, unused tax credits and deferred tax assets on tax losses are recognised to the extent that they can be recovered. The recoverability of assets for prepaid taxes is ascertained periodically, i.e. at least once a year.

Income tax assets related to uncertain tax positions are recognised when it is probable that they will be recovered.
For temporary differences associated with investments in subsidiaries, associates and joint arrangements, deferred tax liabilities are not recorded if the investor is able to control the timing of the reversal of the temporary difference and it is probable that the reversal will not occur in the foreseeable future.
Deferred tax assets and liabilities are recorded under non-current assets and liabilities and are offset at single entity level if related to offsettable taxes. The balance of the offset, if positive, is recognised under 'Deferred tax assets' and, if negative, under 'Deferred tax liabilities'.
When the results of transactions are recognised directly in shareholders' equity, current taxes, deferred tax assets and liabilities are also charged to shareholders' equity.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the 'exit price') in an orderly transaction that is not a forced sale, liquidation sale or a distressed sale between independent, knowledgeable and available market participants at the measurement date.
Fair value is determined based on market conditions at the measurement date and the assumptions that market participants would use (i.e. it is a 'market-based' measurement).
Fair value measurement presupposes that the transaction to sell the asset or transfer the liability occurs in a principal market or, in the absence of a principal market, in the most advantageous market to which the entity has access, independently from the entity's intent to sell the asset or transfer the liability.
When the market price is not directly detectable and a price for an identical asset or liability is not detectable, the fair value is calculated by applying another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Since fair value is a market valuation criterion, it is determined by adopting the assumptions that market participants would use to determine the price of the asset or liability, including assumptions about risks. As a result the intention to hold an asset or settle a liability (or to fulfil otherwise) is not relevant for the purposes of fair value measurement.
Fair value measurements of non-financial assets take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market operator that would use the asset in its highest and best use. The highest and best use is determined from the perspective of market participants, even if the entity intends a different use. An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.
In the absence of quoted market prices, the fair value of a financial or non-financial liability or an entity's own equity instruments is taken as the fair value of the corresponding asset held by another market participant at the measurement date.
The fair value of the financial assets is determined including the 'Credit Valuation Adjustment' or CVA and the risk of non-performance of a liability by the entity (so-called 'Debit Valuation Adjustment' or DVA).
In the absence of quoted market prices, valuation techniques appropriate in the circumstances and for which sufficient data are available are used to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial statements[15]

Assets and liabilities of the balance sheet are classified as current and non-current. Items of the income statement are presented by nature[16].
The statement of comprehensive income shows the net result together with income and expenses that are recognised directly in equity in accordance with IFRS.
The statement of changes in shareholders' equity includes profit (loss) for the year, transactions with shareholders and other changes in shareholders' equity.
The cash flow statement is prepared using the 'indirect method', whereby net profit is adjusted for the effects of non-cash transactions.

Changes to accounting standards

With the issue, on September 22, 2016 and October 31, 2017 respectively, of European Commission Regulations No. 2016/1905 and 2017/1987, IFRS 15 'Revenue from Contracts with Customers' was approved, as well as the document 'Clarifications to IFRS 15 - Revenue from Contracts with Customers', identifying the criteria to be used in the calculation and evaluation of revenues from contracts with customers. They went in to effect on January 1, 2018.
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 five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of

(15) The structure of the financial statements is the same as that used in the 2017 Annual Report, with the exception of the impacts connected with the application, in force from January 1, 2018, of the new accounting standards, as indicated hereafter in the paragraph entitled 'Changes to accounting criteria'.
(16) Additional information regarding financial instruments, applying the classification required by IFRS, is provided under Note 39 'Guarantees, commitments and risks - Additional information on financial instruments'.

the 'stand alone' selling price of each item of goods or each service; (v) recognition of the revenue when (or as) the entity satisfies a performance obligation.
The new standard substantially confirms the validity of the 'over time' evaluation criteria of long-term contract adopted by the Group, using an input method based on the percentage of costs incurred with respect to the total contractually estimated costs ('cost-to-cost' method).
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 reduction in net assets of €20 million, deriving from the different performance obligations of certain engineering and construction projects and from a different assessment of the performance obligations of drilling services.
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 long-term contracts previously included in inventories and contract liabilities previously included in financial debt and other payables.
For further information on the application of the provisions of the new standard to the Group's operations, please refer to the information in the valuation criteria in the paragraphs 'Contract assets and contract liabilities' and 'Revenues from contracts with customers'.

With Regulation No. 2016/2067, issued by the European Commission on November 22, 2016, IFRS 9 'Financial Instruments' was approved and went into effect on January 1, 2018.
The provisions of the new standard: (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 loss; and (iii) bring in new hedge accounting requirements.
The new method of classification and valuation of financial assets representing debt instruments did not entail significant changes.
Regarding the new method for the impairment of financial assets, the assessment of the recoverability of financial assets representative of debt instruments not evaluated at fair value through profit and loss is made on the basis of the so-called expected credit loss model. The management model adopted by the Group envisages the simplified approach for trade receivables because they do not contain a significant financial component, which requires the valuation of the provision to cover losses for an amount equal to the expected losses over the entire life of the receivable. This approach uses the probability of default of customers based on observable market data and on assessments collected by info-providers for the quantification of expected losses.
With regard to hedge accounting, certain areas of optimisation in the management of hedge accounting strategies have been identified, in the light of the new elements and simplifications introduced by the standard. Following the analyses performed, a new management model for hedge accounting has been developed over the course of the year, and will be fully applied from January 1, 2019. For the year 2018, however, the Group has continued with the model used in previous years, considered to be in line with the new provisions.
Also for the first application of IFRS 9, 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 greater write-downs in financial assets due to the adoption of the expected credit loss model.
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 with effect on OCI', in the income statement under the item 'Net reversals (impairments) of trade and other receivables' to accommodate write-downs/write-backs of trade receivables and other receivables.
For further information on the application of the provisions of the new standard to the Group's operations, please refer to the information in the valuation criteria in the paragraphs 'Financial assets', 'Write-down of financial assets', 'Minority interests' and 'Derivative financial instruments and hedge accounting'.

Hereinafter are the other changes/additions made to the international accounting standards that came into force as of January 1, 2018 which are of potential interest to Saipem and whose application did not have significant effects for the Group.

With Regulation No. 2018/182, issued by the European Commission on February 7, 2018, the document 'Annual Improvements to IFRS Standards 2014-2016 Cycle' was approved, containing amendments, mainly technical and editorial, to IAS 28 international accounting standards 'Investments in associates and joint ventures' and IFRS 1 'First-time adoption of International Financial Reporting Standards'. The amendments to IAS 28 and to IFRS 1 went into effect starting on January 1, 2018. Their implementation did not impact the Group.

With Regulation No. 2018/289, issued by the European Commission on February 26, 2018, the document 'Amendments to IFRS 2 - Classification and Measurement of Share-based Payment

Transactions', was approved with the aim of clarifying the classification and accounting of several types of transaction with payment based on shares. The amendments to IFRS 2 went into effect starting on January 1, 2018. Their implementation did not impact the Group.

With Regulation No. 2018/519, issued by the European Commission on March 28, 2018, the IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration', regarding the method of conversion of advance payments received in foreign currency, was approved 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.
This interpretation should be read jointly with IAS 21 'The Effects of Changes in Foreign Exchange Rates'.
IFRIC 22 went into effect starting on January 1, 2018. Its application did not have any impact on the Group as the provisions specified reaffirmed behaviour already adopted by Saipem.

Risk management

The main risks that Saipem is facing and actively monitoring and managing are the following:
(i) the market risk deriving from exposure to fluctuations in interest rates and exchange rates and from exposure to commodity price volatility;
(ii) the credit risk deriving from the possible default of a counterparty;
(iii) the liquidity risk deriving from the lack of adequate financial resources to face short-term commitments;
(iv) the downgrading risk deriving from the possibility of a deterioration in the credit rating assigned by the main rating agencies.

Financial risks are managed in accordance with Guidelines defined by the parent company, with the objective of aligning and coordinating Saipem Group policies on financial risks.
For further details on industrial risks, see the 'Risk management' section in the Directors' Report.

(i) Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or commodity prices will adversely affect the value of the Group's financial assets, liabilities or expected future cash flows. Saipem actively manages market risk in accordance with an above-mentioned Guidelines and by procedures that provide a centralised model for conducting financial activities.

Market risk - Exchange rates

Exchange rate risk derives from the fact that Saipem's operations are conducted in currencies other than the euro and that revenues and/or costs from a significant portion of projects executed are potentially denominated and settled in non-euro currencies. This impacts on:
- the economic result due to the different countervalue of costs and revenues denominated in foreign currency at the time of their recognition compared to the time when the price conditions were defined and as a result of the conversion and subsequent revaluation of trade or financing receivables/trade payables denominated in foreign currencies;
- the Group's reported results and shareholders' equity, as the income and financial statements of subsidiaries denominated in currencies other than the euro are translated from their functional currency into euro.

The risk management objective of the Saipem Group is the minimisation of the impact deriving from fluctuations in exchange rates on the result for the year.
Saipem does not undertake any hedging activity for risks deriving from the translation of foreign currency denominated profits or assets and liabilities of subsidiaries that prepare financial statements in a currency other than the euro.
Saipem adopts a strategy to reduce exchange rate risk exposure by using derivative contracts. 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 impact exchange risk exposure in 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 relative fair value is carried out by comparing the counter-value fixed in contracts with the counter-value determined at spot exchange rates, adjusted at more or less than 10%, and adjusted using interest rate curves consistent with the expiration dates of contracts on the basis of market prices at year-end.

The analysis did not examine the effect of exchange rate fluctuations on the valuation of long-term contracts because long-term contracts do 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 -€62 million (-€56 million at December 31, 2017) and an overall effect on shareholders' equity, before related tax effects, of -€201 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 €63 million (€47 million at December 31, 2017) and an overall effect on shareholders' equity, before related tax effects, of €202 million (€214 million at December 31, 2017).
The increases/decreases with respect to the previous year is essentially due to variations in the exposed assets and liabilities.
The table below shows the effects of the above sensitivity analysis on balance sheet and income statement items.

	2017				2018			
	Δ+10%		Δ-10%		Δ+10%		Δ-10%	
(€ million)	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Derivative financial instruments	(65)	(232)	56	223	(78)	(217)	79	218
Trade and other receivables	92	92	(92)	(92)	94	94	(94)	(94)
Trade and other payables	(100)	(100)	100	100	(99)	(99)	99	99
Cash and cash equivalents	17	17	(17)	(17)	21	21	(21)	(21)
Short-term debt	-	-	-	-	-	-	-	-
Medium/long-term debt	-	-	-	-	-	-	-	-
Total	**(56)**	**(223)**	**47**	**214**	**(62)**	**(201)**	**63**	**202**

The sensitivity analysis on trade receivables and payables for the principal currencies were as follows.

		Dec. 31, 2017			Dec. 31, 2018		
(€ million)	Currency	Total	Δ -10%	Δ +10%	Total	Δ -10%	Δ +10%
Receivables							
	USD	724	(72)	72	777	(78)	78
	SGD	30	(3)	3	1	-	-
	KWD	115	(12)	12	100	(10)	10
	PLN	29	(3)	3	26	(3)	3
	NOK	5	(1)	1	11	(1)	1
	Other currencies	14	(1)	1	25	(2)	2
Total		**917**	**(92)**	**92**	**940**	**(94)**	**94**
Payables							
	USD	765	77	(77)	704	70	(70)
	GBP	47	5	(5)	52	5	(5)
	AED	29	3	(3)	28	3	(3)
	SGD	84	8	(8)	82	8	(8)
	NOK	18	2	(2)	17	2	(2)
	JPY	11	1	(1)	2	-	-
	AOA	14	1	(1)	9	1	(1)
	KWD	14	1	(1)	39	4	(4)
	Other currencies	22	2	(2)	56	6	(6)
Total		**1,004**	**100**	**(100)**	**989**	**99**	**(99)**

Market risk - Interest rate
Interest rate fluctuations influence the market value of the company's financial assets and liabilities and the level of net finance expense. To reduce this risk, Interest Rate Swaps (IRS) are entered into.
In compliance with established risk management objectives the Finance Department of Saipem assesses, when stipulating variable rate financing, where appropriate, to enter into Interest Rate Swap (IRS) transactions in order to manage fluctuations in interest rates. Planning, coordination and management of this activity at Group level is the responsibility of the Finance Department of Saipem, which closely monitors the correlation between derivatives and their underlying flows, as well as ensuring their correct accounting representation in compliance with the

International Financial Reporting Standards (IFRS). Although Saipem adopts a strategy targeted at minimising its exposure to interest rate risk through the pursuit of financial structure objectives defined, it is not to be excluded that interest rate fluctuations could significantly influence the Group's results and the comparability of the results of individual financial years.
Interest rate derivatives are evaluated by the Finance Department of Saipem at fair value on the basis of standard market evaluation algorithms and market prices provided by specialised sources. To measure the impact of interest rate risk a sensitivity analysis was performed. The analysis calculated the effect on the income statement and shareholders' equity which would result from a positive and negative 100 basis point movement on interest rate levels.
The analysis was performed relating to all relevant financial assets and liabilities exposed to interest rate fluctuations and regarded in particular the following items:
- interest rate derivatives;
- cash and cash equivalents;
- short and long-term financial liabilities.

For derivative financial instruments on interest rates, the sensitivity analysis on fair value was conducted by discounting the contractually expected cash flows with the interest rate curves recorded on the basis of year-end market rates, with variations in excess of and less than 100 basis points. With reference to cash and cash equivalents and to variable rate financial liabilities, reference was made 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 in excess of and less than 100 basis points on interest rates.
A positive variation in interest rates would have produced an overall effect on pre-tax profit of €4 million (€4 million at December 31, 2017) and an overall effect on shareholders' equity, before related tax effects, of €8 million (€4 million at December 31, 2017). A negative variation in interest rates would have produced an overall effect on pre-tax profit of -€8 million (-€14 million at December 31, 2017) and an overall effect on shareholders' equity, before related tax effects, of -€12 million (-€14 million at December 31, 2017).
The increases/decreases with respect to the previous year is essentially due to variations in the assets and liabilities exposed to interest rate fluctuations.
The table below shows the effects of the above sensitivity analysis on balance sheet and income statement items.

	2017				2018			
	+100 basis points		-100 basis points		+100 basis points		-100 basis points	
(€ million)	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Cash and cash equivalents	5	5	(11)	(11)	8	8	(8)	(8)
Derivative financial instruments	3	3	(3)	(3)	-	4	-	(4)
Short-term debt	-	-	-	-	-	-	-	-
Medium/long-term debt	(4)	(4)	-	-	(4)	(4)	-	-
Total	**4**	**4**	**(14)**	**(14)**	**4**	**8**	**(8)**	**(12)**

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 derivatives (swap and bullet swaps) in particular on the organised ICE, NYMEX and LME markets where the relevant physical commodity market is well correlated to the financial market and is price efficient.
As regards commodity price risk management, derivative instruments on commodities were negotiated by Saipem to hedge underlying contractual commitments. Hedge transactions may also be entered into in relation to future underlying contractual commitments, provided these are highly probable (so-called highly probable forecast transactions). Despite the hedging instruments adopted by the Company to control and manage commodity risks, Saipem cannot guarantee that they will be either efficient or adequate or that in future it will still be able to use such instruments.
Commodity derivatives are evaluated at fair value by the Finance Department of Saipem on the basis of standard market evaluation algorithms and market prices provided by specialised sources.
With regard to commodity risk hedging instruments, a 10% positive variation in the underlying rates would have produced no effect on pre-tax profit, while it would have produced an effect on shareholders' equity, before related tax effects, of €2 million. A 10% negative variation in the underlying rates would have produced no effect on pre-tax profit, while it would have produced an effect on shareholders' equity, before related tax effects, of -€2 million.

(ii) Credit risk
Credit risk represents Saipem's exposure to potential losses deriving from the non-performance of counterparties. As regards counterparty risk in commercial contracts, credit management is the responsibility of the Divisions 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.
Assessment of the recoverability of financial assets with counterparties of a trade and financial nature was made on the basis of the so-called 'expected credit loss model' illustrated in the paragraph entitled 'Write-down of financial assets'.

(iii) Liquidity risk

The evolution of working capital and of financial requirements is strongly influenced by the invoicing time frames for long-term contracts and the collection of the relevant receivables. Consequently, and despite the fact that the Group has implemented measures targeted at ensuring that adequate levels of working capital and liquidity are maintained, possible delays in the progress of projects and/or in the definition of situations being finalised with clients, may have an impact on the capacity and/or on the time frames for the generation of cash flows.
Liquidity risk is the risk that suitable sources of funding for the Group may not be available (funding liquidity risk), or that the Group is unable to sell its assets on the market place (asset liquidity risk), making it unable to meet its short-term finance requirements and settle obligations. Such a situation would negatively impact the Group's results as it would result in the company incurring higher borrowing expenses to meet its obligations or under the worst of conditions the inability of the company to continue as a going concern. The objective of the Group's risk management is to create a financial structure which, consistent with business objectives and prescribed limits, can guarantee a level of liquidity in terms of borrowing facilities and committed credit lines sufficient for the entire Group.
At present, through the management of flexible credit lines suitable with business requirements, Saipem believes it has access to funding that is more than adequate and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.
The liquidity management policies used have the objective of ensuring both adequate funding to meet short-term requirements and obligations and a sufficient level of operating flexibility to fund Saipem's development plans, while maintaining an adequate finance structure in terms of debt composition and maturity.
Saipem has credit lines and financing sources available to cover its overall financial requirements. Through the transactions carried out on the financial markets in 2018, the Group has structured its sources of funding mainly along medium to long term deadlines with an average duration equal to 3.6 years as at December 31, 2018.
At December 31, 2018, Saipem has unused committed credit lines of €1,000 million, to which can be added the availability of cash at the same date of €1,674 million.
In addition to the above, Saipem may use the remaining amount, equivalent to €239 million of the line guaranteed by GIEK for the Company's purchases of equipment and services from Norwegian exporters and the remaining amount of €19 million of the credit line guaranteed by Atradius.

(iv) Downgrading risk

S&P Global Ratings assigned Saipem a long term corporate credit rating equal to 'BB+', with a negative outlook; Moody's Investor Services assigned Saipem corporate family rating equal to 'Ba1', with a stable outlook.
Credit ratings influence the ability of the Group to obtain new loans, as well as the cost thereof. Consequently, should one or more ratings agencies lower the Company's rating, this could determine a worsening in the conditions for accessing financial markets.

Finance, trade and other payables

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

	Maturity						
(€ million)	2019	2020	2021	2022	2023	After	Total
Long-term debt	231	176	637	623	598	636	2,901
Short-term debt	80	-	-	-	-	-	80
Fair value of derivative instruments	86	9	-	-	-	-	95
Total	**397**	**185**	**637**	**623**	**598**	**636**	**3,076**
Interest on debt	71	69	67	51	36	31	325

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

	Maturity			
(€ million)	2019	2020-2023	After	Total
Trade payables	2,372	-	-	2,372
Other payables	302	-	-	302

Outstanding contractual obligations

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

	Maturity						
(€ million)	2019	2020	2021	2022	2023	After	Total
Non-cancellable operating leases	130	115	81	79	74	105	584

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

	Maturity
(€ million)	2019
Committed on major projects	-
Other committed projects	80
Total	**80** (1)

(1) Of which €26 million relative to commitments on the underwriting of equity investments.

4 Accounting estimates and significant judgements

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires Management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

Summarised below are those accounting estimates used in the preparation of consolidated financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.

REVENUES, CONTRACT ASSETS AND CONTRACT LIABILITIES

The processes and methods for recognising revenues and evaluating contract assets and contract liabilities from work in progress are based on the estimate of total lifetime revenues and costs of long-term projects, the appreciation of which is influenced by valuation criteria which by their nature imply recourse to the judgement of the Directors, specifically with reference to the forecast of costs to complete each project including the estimate of the risks and contractual penalties, where applicable, to the evaluation of contractual changes envisaged or being negotiated and any changes in estimates compared to the previous year. In particular, in evaluating contract assets from work in progress, account is taken of the requests of additional costs with respect to those contractually agreed, if substantially approved by the customer in the scope and/or price.

WRITE-DOWN OF FINANCIAL ASSETS

Checking, classification and measurement of the counterparty credit risk for the purpose of calculating the write-down of financial assets is a detailed, complex process that requires the company Management to provide a professional opinion.

In a manner similar to impairment processes involving other items of the financial statements, the estimates made, although based on the best information available and on the adoption of adequate methods and techniques of evaluation, are intrinsically characterised by elements of uncertainty and by the exercise of a professional opinion, and could generate forecasts of recoverable values different from those that will be effectively realised.

WRITE-DOWN OF NON-FINANCIAL ASSETS

Impairment losses are recognised if events and changes in circumstances indicate that the carrying amount of non-financial assets may not be recoverable.

Impairment is recognised in the event of significant permanent changes in the outlook for the market segment in which the non-financial asset is used. The decision as to whether to proceed with a write-down and its quantification depend on assessments made by the company Management on complex and highly uncertain factors, such as the future performance of the reference market, the impact of inflation and of technological advances on operating costs, the conditions of supply and demand on a global or regional scale, the evolution of the operations and business activities of the Divisions, the business insight deriving from discussions and interactions of a strategic or commercial nature by the Divisions with clients, partners, suppliers and competitors.

The amount of an impairment loss of a non-financial asset is determined by comparing the carrying value of an asset with its recoverable amount (the higher of fair value less costs to sell and value in use calculated as the present value of the future cash flows expected to be derived from the use of the asset net of disposal costs). This verification is carried out at the level of the smallest aggregate of assets (cash generating unit or CGU) that generates incoming and outgoing financial flows that are largely independent of the cash flows generated by other assets or groups of assets and on the basis of which Top Management assesses the profitability of the business.

In July 2018, the Board of Directors of Saipem SpA approved a new strategic direction for the Company, defining specific strategic objectives and priorities for each division. Coherently, the Board of Directors of Saipem SpA has approved amendments to the organisational and governance structure, which were implemented in the second half of the year, in order to complete the process of divisionalisation undertaken in 2017. In line with this strategic orientation, the commercial business processes concerning acquisition of projects and purchases of goods and services, the process of strategic planning and of authorisation of investments are substantially delegated to the Division Managers. Coherently, the changes to the organisation and governance introduced have given rise to a different mode of management of the Divisions, now characterised by greater and more direct operating, management and strategic responsibility on the part of the Division Managers.

Beginning with the Interim Consolidated Report as of June 30, 2018 and following the adoption of the new strategic direction and the resulting change to the organisational model, the impairment test procedure of the Group's CGUs was consistently 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 tested 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 were applied on a forward-looking basis, beginning with preparation of the Interim Consolidated Report as of June 30, 2018, and not retroactively.

The cash flows expected for each CGU are quantified on the basis of the last Strategic Plan, also with reference to the actual results, prepared by the management and approved by the BoD. The plan contains the forecasts, developed by the management in light of the information available at the time of the estimate, with regard to the volumes of business, operating costs, margins, investments coherent with strategic guidelines, as well as the industrial, commercial and strategic positioning of the specific Divisions and also taking account of the market situation (including the performance of the main monetary variables such as exchange rates and inflation). Thus the Plan forecasts (as well as the long-term forecasts after the Plan period), while based on complex assumptions that by their nature imply recourse to the opinion of the directors, are grounded in reasonably objective foundations (which, in other words, take account of the market context and specific characteristics of Saipem), and are not conditioned on the occurrence of a specific event such as the success of new technology) in order to express, at the same time, the best estimate of the management and expected average flows.

Lastly, in line with the provisions of IAS 36, the cash flows used for the purposes of the impairment test do not take into account future cash inflows or outflows deriving from: (i) a future restructuring still to be approved or to which company is not committed yet, or (ii) the improvement or optimisation of business performance on the basis of initiatives still to be undertaken or approved, or for which there is still no commitment towards, third parties for the increase of production capacity with respect to current capacity.

The cash flows calculated in this way are discounted using rates that take account of the risk specific to the business segments to which the individual CGUs belong.

For assets other than independent CGUs (i.e. Offshore E&C vessels, Offshore E&C and Onshore E&C construction yards and the drilling rigs of Onshore Drilling) and that show signs of impairment, the Company verifies the

sustainability of the residual technical-economic life of the asset to determine whether there is any need to report a write-down pursuant to IAS 16, before performing the impairment test at the level of the CGU to which it pertains.
Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying value is reviewed at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is also tested for impairment at the level of the smallest aggregate CGU to which goodwill relates. If the carrying amount of the CGU, including goodwill allocated thereto, exceeds the CGUs recoverable amount, the excess is recognised as impairment. The impairment loss is first allocated to reduce the carrying amount of goodwill. Any remaining excess is allocated on a pro-rata basis to the carrying value of the other assets with defined useful life that form the CGU.

BUSINESS COMBINATIONS

Accounting for business combinations requires the difference between the purchase price and the net assets of an acquired business to be allocated to the various assets and liabilities of the acquired business. For most assets and liabilities, the difference is allocated by measuring said assets and liabilities at fair value. Any positive residual difference is recognised as goodwill. Negative residual differences are taken to the income statement. The allocation of the price paid on a provisional basis is subject to revision/update within 12 months following the acquisition, taking into consideration new information on facts and circumstances existing at the date of acquisition. Management uses all available information to make these fair value determinations and, for major business acquisitions, typically engages an independent appraisal firm to assist in the fair value determination of the acquired assets and liabilities. The allocation process, which requires, based on the information available, exercising a complex judgement by Company Management also for the purposes of applying the equity method.

CONTINGENCIES

Saipem and some Group companies are part of judicial and administrative proceedings for which they assess the possibility to accrue for contingencies primarily related to litigation and tax issues. The process and methods for assessing the risks associated with these proceedings are based on complex elements that by their nature imply recourse to the judgement of the directors, specifically with reference to the assessment of uncertainties related to forecasting the results of the proceedings, their classification to the funds or liabilities, taking into account the assessment criteria acquired by the internal legal department and by external legal advisers.
Determining appropriate amounts for provisions is a complex estimation process that includes subjective judgements by Company Management.

EMPLOYEE BENEFITS

Post-employment benefit plans arising from defined benefit plans are evaluated with reference to uncertain events and based upon actuarial assumptions including among others discount rates, expected rates of salary increases, mortality rates, retirement dates and medical cost trends.
The significant assumptions used to account for such benefits are determined as follows: (i) discount and inflation rates reflect the rates at which the benefits could be effectively settled. Indicators used in selecting the discount rate include rates of return on high-quality corporate bonds or, where there is no deep market in such bonds, the market yields on government bonds and on inflation rate forecasts of market conditions observed country by country; (ii) the future salary levels of individual employees are determined including an estimate of future changes attributed to general price levels (consistent with inflation rate assumptions), productivity, seniority and promotion; (iii) medical cost trend assumptions reflect an estimate of the actual future changes in the cost of the healthcare related benefits provided to the plan participants and are based on past and current medical cost trends including healthcare inflation, and changes in health status of the participants; (iv) demographic assumptions such as mortality, disability and turnover reflect the best estimate of these future events for the individual employees involved.
Changes in the net defined benefit liability (asset) related to remeasurements routinely occur and comprise, among other things, changes in actuarial assumptions, experience adjustments (i.e. the effects of differences between the previous actuarial assumptions and what has actually occurred) and the return on plan assets, excluding amounts included in net interest. Remeasurements are recognised in other comprehensive income for defined benefit plans and in profit or loss for long-term plans.

RECEIVABLES

The recoverability of value of entries in receivables and the need to recognise a possible write-down of them is determined on the basis of the so-called 'expected credit loss model' illustrated in the paragraph entitled 'Write-down of financial assets'. This process also involves complex and/or subjective judgements by the Company Management. The factors considered in the context of these judgements concern, among other things, the creditworthiness of the counterparty where available, the amount and timing of expected future payments, any credit risk mitigation instruments implemented, as well as any actions set up or planned for debt recovery.

FAIR VALUE

The determination of the fair value of financial and non-financial instruments is a detailed process characterised by the use of complex methods and techniques of assessment and that requires the collection of updated information from the

reference markets and/or the use of internal input data.
As for the other estimates, determination of the fair value, while based on the best information available and on the adoption of adequate methods and techniques of evaluation, are intrinsically characterised by elements of uncertainty and by the exercise of a professional opinion, and could generate forecasts of values different from those that will be effectively realised.

5 Recent accounting principles

Accounting standards and interpretations issued by IASB/IFRIC and endorsed by the European Union

With Regulation No. 2017/1986, issued by the European Commission on October 31, 2017, the IFRS 16 'Leases' was approved. It defines the criteria for recognition, valuation, disclosure in the financial statements and additional information on lease contracts. The provisions of the new standard are effective from January 1, 2019. IFRS 16 replaces IAS 17 and the relative interpretations, and defines a single model of recognition of lease contracts based on the recognition by the lessee of an asset representative of the right of use of the underlying leased asset to offset a liability representative of the obligation to make the payments provided by the contract ('lease liability').
The accounting method contemplated by the new standard provides, in short, for recognition:
- in the balance sheet: of the asset represented by the right to use the underlying leased asset, and financial liabilities representing the obligation to make the payments provided by the contract;
- in the income statement: of depreciation of the asset consequent to the right to use it and of the interest paid on the lease liability;
- the following effects are determined in the cash flow statement: a) a change in the net cash flow provided by operating activities that will no longer receive the payments for lease rates, but the disbursements for interest paid on the lease liability not subject to capitalisation; b) a change in the net cash flow used in investing activities, that will no longer receive the payments relative to lease rates capitalised on tangible and intangible assets, but only the disbursements for interest paid on the lease liability subject to capitalisation; c) a change in the net cash flow from financing activities that will receive the disbursements connected with repayment of the lease liabilities.

The new standard eliminates the classification of leases as operating or financial, with limited exceptions of application of the accounting procedures currently used for operating leases (assignment of the lease rates to the income statement on accrual basis for leases responding to the requirements to be considered as 'short term' or 'low value').
Conversely, no significant changes are envisaged for the lessor's financial statements and the distinction between operating and financial leases is maintained.
The application of the new standard is expected to have significant impact on the Group balance sheet and income statement as a result of:
(i) an increase in fixed assets for the right of use of the underlying leased assets among assets;
(ii) an impact on the net financial position, deriving from the increase in financial liabilities for lease debts;
(iii) an increase of the EBITDA, and to a lesser extent of the EBIT, due to the reduction in lease rates currently included in operating costs, and a simultaneous increase in amortisation;
(iv) a marginal variation in net profit by effect of the recognition of the financial expenses.

In 2018, the analysis launched in 2016 ended. It was aimed at identifying potential critical aspects of contracts, assessing potential impacts on the financial statements and verifying any adjustments to the financial reporting support systems in order to ensure the correct and timely recovery of operating data and accounting values.
Following the analysis made, the main contractual cases linked to specific categories of assets that concern most of the companies in the Group are as follows:
- vessels for the performance of projects by the Offshore E&C Division;
- rental contracts for real estate;
- industrial areas and construction yards in support of the projects of the Onshore E&C Division;
- vehicles and office machines.

The first time it applies the new standard, Saipem intends:
- to apply the so-called 'modified retrospective approach', recognising the effect connected to retroactive recalculation of the shareholders' equity values as of January 1, 2019, without making the restatement of previous years used for comparison;
- to avail itself of the practical expedient consisting of not applying IFRS 16 to leases for which the residual duration as of January 1, 2019, is less than 12 months, for all types of assets;
- to consider as leases all contracts classifiable as such based on IFRS 16 without applying the 'grandfathering' expedient (the possibility not to review every contract existing as of January 1, 2019, applying IFRS 16 only to those contracts previously identified as leases based on IAS 17 and IFRIC 4);
- recognise an asset for the right of use at an amount corresponding to the lease liability adjusted, where necessary, to take into account any prepaid expenses for advances and without considering the initial direct costs incurred in years prior to January 1, 2019.

Moreover, the following stipulations shall apply:
- the lease liability is recognised at the current value of payments due for the lease, discounted using the incremental financing rate of Saipem (rate as of January 1, 2019, at the

time of the first application) and defining the discount rate used to discount cash flows on the basis of the benchmark spot EUR curve adjusted for the Saipem risk. The rate is determined, taking account, among other things, of the currency of denomination and duration of the underlying contract;
- variable payments linked to the use of an asset are not included in the lease liability/right of use of the asset but are recognised, pursuant to the provisions of IFRS 16, in the income statement as costs for the period;
- the options of renewal or advance termination are analysed, where present, in order to determine the overall duration of the contract.

On the basis of the information available, the adoption of IFRS 16 involves reporting right-of-use of the asset and lease liabilities at January 1, 2019 for about €547 million; this estimate could change relative to the possible interpretative developments deriving from the indications of the IFRIC, and to the refinement of the processing method in view of the first application of the standard in financial reporting for 2019.
With continued reference to the information currently available, the following is a reconciliation between the amount of minimum future payments due for non-cancellable operating leases as at December 31, 2018 (based on IAS 17) and the opening balance of the lease liability, not discounted, as of January 1, 2019 (based on IFRS 16):

(€ million)

Minimum future payments due for non-cancellable operating leases (based on IAS 17) at December 31, 2018	**584**
Short term lease included in non-cancellable operating lease contracts and other variations	(7)
Cancellable leases based on IAS 17	60
Lease liability, not discounted (based on IFRS 16), at January 1, 2019	**637**
Discounting effect	(90)
Lease liability (based on IFRS 16) at January 1, 2019	**547**

Based on business considerations, renewal options relevant to vessels of the Offshore E&C Division and to properties, for €270 million totally, have not been considered in determining the overall duration of the contracts and in determining the lease liability as of January 1, 2019.

With Regulation No. 2018/498, issued by the European Commission on March 22, 2018, the regulations contained in 'Prepayment Features with Negative Compensation - Amendments to IFRS 9', issued by the IASB on October 12, 2017, were approved. The document allows for the measurement at amortised cost or at Fair Value Through Other Comprehensive Income (FVTOCI) of a financial asset characterised by an advance payment option through negative compensation. The document also clarified the method of accounting for a change or an exchange of a financial liability at amortised cost that was not subject to derecognition. The difference between the original contractual cash flows and the modified cash flows, discounted at the effective interest rate, must be recognised in the income statement at the date of the change or exchange. These amendments shall be applied for annual periods beginning on or after January 1, 2019.

With Regulation No. 2018/1595, issued by the European Commission on October 23, 2018, IFRIC 23 'Uncertainty Over Income Tax Treatments' was approved which provides indications on how to consider the uncertainties on certain conduct followed by the entity in applying tax legislation (for example, conduct adopted for this issue of transfer prices that could be challenged by the tax authorities, or uncertainties regarding the period of deduction of tax depreciation of certain assets). The likelihood of the tax authorities accepting the entity's conduct and whether to consider the uncertainty in itself or in relation to the general tax burden of the entity should be verified.
IFRIC 23 provisions are effective for annual periods beginning on or after January 1, 2019.

With Regulation No. 2019/237, issued by the European Commission on February 8, 2019, IAS 28 'Long-term Interests in Associates and Joint Ventures', was approved. It is aimed at clarifying that the provisions of IFRS 9, including those relating to impairment, also apply to the financial instrument assets representing long-term interests in an associate or joint venture which, in substance, form part of the net investment in the associated company or joint venture (so-called long-term interest). The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2019.

With Regulation No. 2019/402, issued by the European Commission on March 13, 2019, the amendments to IAS 19 'Plan Amendment, Curtailment or Settlement', were approved and are aimed essentially at requiring the use of up-to-date actuarial assumptions in determining the cost related to service costs and net interest for the period following a modification, reduction or termination of an existing defined benefit plan. The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2019.

With Regulation No. 2019/412, issued by the European Commission on March 14, 2019, the document 'Annual Improvements to IFRS Standards 2015-2017 Cycle', was approved and which essentially consists of changes of a technical and editorial nature to existing standards. The amendments to the accounting standards are effective for annual periods beginning on or after January 1, 2019.

Accounting standards and interpretations issued by IASB/IFRIC and not yet endorsed by the European Commission

On May 18, 2017, the IASB issued IFRS 17 'Insurance Contracts' (hereinafter IFRS 17), defining the accounting treatment of insurance contracts issued and reinsurance contracts held. The provisions of IFRS 17, which go beyond those currently provided by IFRS 4 'Insurance Contracts', are effective for annual periods beginning on or after January 1, 2021.

On 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.

On October 22, 2018, the IASB issued the amendments to IFRS 3 'Business Combinations', providing clarification on the definition of business. The amendments to IFRS 3 are effective for annual periods beginning on or after January 1, 2020.

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 'Definition of Material', serving to clarify and render uniform within the IFRS and other publications the definition of recognition, in order to support the companies in the formulation of opinions on the subject. In particular, information should be considered relevant if its omission, erroneous presentation or concealment could presumably influence the main users of the financial statements in making decisions on the basis of those statements. The amendments to IAS 1 and IAS 8 are effective for annual periods beginning on or after January 1, 2020.

Saipem is currently reviewing the standards indicated and is assessing their possible impacts on the Group.

6 Scope of consolidation at December 31, 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	30.54		
				CDP Equity SpA (formerly Fondo Strategico Italiano)	12.55		
				Saipem SpA	1.46		
				Third parties	55.45		

Subsidiaries

Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle (*)
Denuke Scarl	San Donato Milanese	EUR	10,000	Saipem SpA	55.00	55.00	F.C.
				Third parties	45.00		
INFRA SpA	San Donato Milanese	EUR	50,000	Saipem SpA	100.00	100.00	F.C.
Servizi Energia Italia SpA	San Donato Milanese	EUR	291,000	Saipem SpA	100.00	100.00	F.C.
Smacemex Scarl	San Donato Milanese	EUR	10,000	Saipem SpA	60.00	60.00	F.C.
				Third parties	40.00		
SnamprogettiChiyoda sas di Saipem SpA	San Donato Milanese	EUR	10,000	Saipem SpA	99.90	99.90	F.C.
				Third parties	0.10		

Outside Italy

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	20,494,210	Saipem SpA	99.00	100.00	F.C.
				Snamprogetti Netherlands BV	1.00		
Boscongo SA	Pointe-Noire (Congo)	XAF	1,597,805,000	Saipem SA	100.00	100.00	F.C.
ER SAI Caspian Contractor Llc	Almaty (Kazakhstan)	KZT	1,105,930,000	Saipem International BV	50.00	50.00	F.C.
				Third parties	50.00		
ERS - Equipment Rental & Services BV	Amsterdam (Netherlands)	EUR	90,760	Saipem International BV	100.00	100.00	F.C.
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	Lima (Peru)	PEN	1,200,529,045	Saipem International BV	100.00	100.00	F.C.
PT Saipem Indonesia	Jakarta (Indonesia)	USD	372,778,100	Saipem International BV	99.99	99.99	F.C.
				Third parties	0.01		
SAGIO - Companhia Angolana de Gestão de Instalaçao Offshore Ltda (**)	Luanda (Angola)	AOA	1,600,000	Saipem International BV	60.00	60.00	E.M.
				Third parties	40.00		

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

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle (*)
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	61,033,500	Saipem International BV Third parties	99.02 0.98	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	110,000	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	F.C.
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	100.00	100.00	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 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

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	59.09 40.91	59.09	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.
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.
PSS Netherlands BV	Leiden (Netherlands)	EUR	30,000	Saipem SpA Third parties	36.00 64.00	36.00	E.M.
Sabella SAS	Quimper (France)	EUR	9,707,940	Sofresid Engineering SA Third parties	11.95 88.05	11.95	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.
Saren BV	Amsterdam (Netherlands)	EUR	20,000	Servizi Energia Italia SpA 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.
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	Co.
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 S¸ irketi	Istanbul (Turkey)	TRY	826,099,950	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 - Servições de Engenharia Lda	100.00	25.00	E.M.
TSKJ - Nigeria Ltd	Lagos (Nigeria)	NGN	50,000,000	TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	100.00	25.00	E.M.
TSKJ - Serviçoes 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 96 companies: 59 are consolidated using the full consolidation method, 2 using the working interest method, 32 using the equity method and 3 using the cost method.
At December 31, 2018, the companies of Saipem SpA can be broken down as follows:

	Controlled companies			Associates 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)	**-**	**2**	**2**	**7**	**26**	**33**
Accounted for using the equity method	-	2	2	5	25	30
Accounted for using the cost method	-	-	-	2	1	3
Total companies	**5**	**56**	**61**	**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
(***) Inactive throughout the year.

Changes in the scope of consolidation

There were no significant changes in the scope of consolidation during 2018 with respect to the consolidated financial statements at December 31, 2017. 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;
- **CEPAV (Consorzio Eni per l'Alta Velocità) Due**, following division of the pertinent shares, is now held in the following manner: 59.09% held by Saipem SpA and 40.91% by third parties;
- following a capital increase, ownership of **Saipem (Malaysia) Sdn Bhd**, is as follows: 99.02% held by Saipem International BV and 0.98% by third parties;
- **Saipem East Africa Ltd**, previously accounted for using the equity method, was consolidated using the full consolidation method with the US dollar as its functional currency;
- **SPF - TKP Omifpro Snc**, previously accounted for using the equity method, was removed from the Register of Companies;
- **PSS Netherlands BV**, with registered offices in the Netherlands, was incorporated and is accounted for using the equity method;
- **CMS&A WII**, previously accounted for using the equity method, was removed from the Register of Companies;
- **Professional Training Center Llc**, previously consolidated using the full consolidation method, was removed from the Register of Companies;
- **Saipem International BV** purchased 40% of Saudi Arabian Saipem Ltd shares from a third parties;
- **Saren BV**, with registered offices in the Netherlands, was incorporated and is accounted for using the equity method;
- **Snamprogetti Lummus Gas Ltd**, previously accounted for using the cost method, was removed from the Register of Companies;
- **02 PEARL Snc**, accounted for using the equity method, was placed into liquidation;
- **Rodano Consortile Scarl**, accounted for using the equity method, was placed into liquidation;
- following a capital increase, ownership of **Sabella SAS**, is as follows: 11.95% held by Sofresid Engineering SA and 88.05% by third parties;
- la società **Tecnoprojecto International Projectos e Realizações Industriais SA**, previously accounted for using the equity method, was accounted for using the cost method as it is held for sale.

7 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**

With reference to the year 2018, application of the previous provisions (IAS 11 and IAS 18) on the subject of revenue recognition would have had the following effects on the consolidated financial statements:
- in terms of equity, fundamentally, there was an increase in the item 'Trade receivables and other receivables' equal to €31 million because of the linearization of revenues from the onshore/offshore drilling business, with a total effect on shareholders' equity of €31 million;
- in economic terms, fundamentally, there was a increase of €9 million due to the linearization of revenues from onshore/offshore drilling projects, with a positive effect of €9 million on profits for the year;
- in terms of cash flows, fundamentally, there was an increase of €9 million due to linearization of the onshore/offshore drilling projects.

CURRENT ASSETS

8 Cash and cash equivalents

Cash and cash equivalents amounted to €1,674 million, representing a decrease of €77 million compared with December 31, 2017 (€1,751 million).
Cash and cash equivalents at the end of the year, denominated in euros for 59%, US dollars for 19% and other currencies for 22%, were found to be remunerated at an average rate of 0.29%. Cash and cash equivalents included cash and cash on hand of €2 million (€2 million at December 31, 2017).
Funds in two current accounts held by the subsidiary Saipem Contracting Algérie SpA, for a total of €71 million at December 31, 2018, remaining in line with the situation as of 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 57 '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 December 31, 2018 by geographical area (based on the country of domicile of the relevant company) was as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Italy	1,215	973
Rest of Europe	133	88
CIS	22	15
Middle East	89	158
Far East	57	100
North Africa	91	81
Sub-Saharan Africa	46	25
Americas	98	234
Total	**1,751**	**1,674**

9 Financial assets measured at fair value through OCI

Financial assets measured at fair value through OCI amounted to €86 million (€69 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Financial assets for non-operating purposes		
Listed bonds issued by sovereign states/supranational institutions	26	22
Listed bonds issued by industrial companies	43	64
Total	**69**	**86**

Listed bonds issued by sovereign states/supranational institutions at December 31, 2018 of €22 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	4	5.00	2020	A+
Poland	6	7	3.75-4.50	2022-2023	A-
Other	7	8	1.375-2.50	2019-2020	AAA/A
Total	**20**	**22**			

Listed bonds issued by industrial companies at December 31, 2018 of €64 million were as follows:

(€ million)	Notional value	Fair value	Nominal rate of return (%)	Maturity	Standard & Poor's rating classification
Fixed rate bonds					
Listed bonds issued by industrial companies	62	64	0.00-6.25	2019-2027	AA-/BBB
Total	**62**	**64**			

The fair value of bonds is determined on the basis of market prices. The fair value hierarchy is level 1. The bonds measured at fair value through OCI are held both to collect contractual cash flows and for future sale.
As described in the 'Accounting policies' in the paragraph 'Write-down of financial assets', to which we refer, the recoverability of the financial assets representing debt instruments measured at fair value through OCI is verified on the basis of the expected credit loss model adopted in compliance with IFRS 9, illustrated in the aforementioned paragraph.
Listed bonds issued by sovereign states/supranational institutions and by industrial companies held by the Group fall within the scope of analysis for the determination of expected losses.
Given the high creditworthiness of the issuers (full investment grade) the impact of expected losses on the bonds in question at December 31, 2018 is irrelevant.

10 Trade and other receivables

Trade and other receivables of €2,644 million (€2,411 million at December 31, 2017) were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Trade receivables	2,008	2,292
Financial receivables for operating purposes	2	2
Financial receivables for non-operating purposes	2	32
Prepayments for services	233	176
Other receivables	166	142
Total	**2,411**	**2,644**

Receivables are stated net of a provision for impairment losses of €703 million.

(€ million)	Dec. 31, 2017	Effect of adopting IFRS 9 January 1, 2018	Additions	Deductions	Currency translation differences	Other changes	Dec. 31, 2018
Trade receivables	572	28	70	(16)	21	(1)	674
Other receivables	30	-	-	-	-	(1)	29
Total	**602**	**28**	**70**	**(16)**	**21**	**(2)**	**703**

Trade receivables amounted to €2,292 million, representing an increase of €284 million compared to 2017.
As described in the 'Accounting policies' in the paragraph 'Write-down of financial assets', to which we refer, the recoverability of the trade receivables is verified on the basis of the expected credit loss model adopted in compliance with IFRS 9, illustrated in the aforementioned paragraph.
The management model adopted by Saipem uses the simplified approach envisaged by the principle that requires the valuation of the provision to cover losses for an amount equal to the losses expected over the entire life of the credit and uses the probability of customer default for the quantification of expected losses, based on observable market data and on assessments collected by info-providers. Alongside the allocations made to the provision for bad debt after reviewing each expired receivable, which effectively already discounts a prospective view of the projects, an assessment is made of the creditworthiness of the clients. This assessment is performed at Corporate level on the portfolio of receivables and communicated to the companies to enable them to quantify and recognise the effects in their interim reporting.
At December 31, 2018, the effect of expected losses on trade receivables, determined on the basis of the assessment of the creditworthiness of the clients, amounted to €56 million on the total provision for bad debt of €674 million.
At December 31, 2018, Saipem had non-recourse non-notification factoring agreements relating to trade receivables, including not past due receivables, amounting to €116 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 contracts of €200 million (€260 million at December 31, 2017), of which €98 million was due within twelve months and €102 million due after twelve months.
Receivables referring to disputed projects amounted to €74 million (€202 million at December 31, 2017).
Financial 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.
The financial receivables for non-operating purposes of €32 million (€2 million at December 31, 2017) related mainly to the opening of an escrow account by Saipem SpA at an Italian bank in order to guarantee an amount received from an associated company as an advance payment on a contract.
At January 1, 2018, the effects of applying IFRS 9 and IFRS 15 were as follows:

(€ million)	Trade receivables
Value at December 31, 2017	**2,008**
Changes to accounting standards (IFRS 9)	(28)
Changes to accounting standards (IFRS 15)	(21)
Value at January 1, 2018	**1,959**

Other receivables of €142 million were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Receivables from:		
- employees	25	34
Guarantee deposits	11	11
Other receivables	130	97
Total	**166**	**142**

Trade receivables and other receivables from related parties are detailed in Note 53 'Transactions with related parties'.
The fair value of trade and other receivables did not differ significantly from their carrying amount due to the short period of time elapsed between their date of origination and their due date.
Receivables in currencies other than the euro amounted to €1,712 million (€1,516 million at December 31, 2017). Their breakdown by currency was as follows:
- US Dollar 55% (62% at December 31, 2017);
- Saudi Arabian Riyal 27% (20% at December 31, 2017);
- Kuwaiti Dinar 4% (6% at December 31, 2017);
- Australian Dollar 4% (5% at December 31, 2017);
- other currencies 10% (7% at December 31, 2017).

11 Inventories and contract assets

Inventories

Inventories amounted to €303 million (€319 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Raw and auxiliary materials and consumables	319	303
Total	**319**	**303**

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 €123 million.

(€ million)	Dec. 31, 2017	Additions	Deductions	Other changes	Dec. 31, 2018
Raw and auxiliary materials and consumables valuation allowance	146	21	(46)	2	123
Total	**146**	**21**	**(46)**	**2**	**123**

Contract assets

Contract assets for €1,086 million (€1,574 million at December 31, 2017) consisted of the following:

(milioni di euro)	Dec. 31, 2017	Dec. 31, 2018
Contract assets (from work in progress)	1,574	1,089
Provisions for expected losses on contract assets (from work in progress)	-	(3)
Total	**1,574**	**1,086**

The item 'Contract assets (from work in progress)' relates to timing differences between actual project progress and the achievement of contractual invoicing milestones, and to the recognition of additional contract revenues deemed probable and reasonably estimated. At the time of the first application of the new provisions of IFRS 9, the values as of December 31, 2017, were not recalculated as the relative effect as of January 1, 2018, would not have been significant.
The amount of the contract assets (from work in progress) decreases by effect of the recognition of milestones by the clients, billing and relative collection, as well as by effect of the write-down deriving from the continuous legal and commercial monitoring of the amounts of claims and order changes considered in the entire lifetime for purposes of evaluation of long-term contracts.

12 Current tax assets

Current tax assets amounted to €201 million (€213 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Italian tax authorities	56	57
Foreign tax authorities	157	144
Total	**213**	**201**

The decrease in current tax assets of €12 million was mainly related to the reduction in credits from foreign tax authorities.

13 Other current tax assets

Other current tax assets amounted to €117 million (€221 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Italian tax authorities:	17	2
- VAT credits	16	2
- other	1	-
Foreign tax authorities:	204	115
- indirect tax credits	180	89
- other	24	26
Total	**221**	**117**

The decrease of other current tax assets refers mainly to the offsetting of receivables by indirect taxes due to foreign financial authorities with the payables for indirect taxes.

14 Other current assets

Other current assets amounted to €100 million (€185 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Fair value on derivatives financial instruments	91	16
Other assets	94	84
Total	**185**	**100**

The fair value of derivative financial instruments is commented on Note 30 'Derivative financial instruments'.
Other assets at December 31, 2018 amounted to €84 million, representing a decrease of €10 million compared with December 31, 2017, and consisted mainly of prepayments.
Other assets from related parties are shown in Note 53 'Transactions with related parties'.

NON-CURRENT ASSETS

15 Property, plant and equipment

Property, plant and equipment amounted to €4,326 million (€4,581 million at December 31, 2017) and consisted of the following:

(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Dec. 31, 2017							
Opening net value	**84**	**239**	**4,583**	**122**	**16**	**148**	**5,192**
Capital expenditure	-	6	169	12	5	61	253
Depreciation, amortisation and impairment	-	(35)	(629)	(37)	(9)	(16)	(726)
Disposals	(1)	(3)	(6)	-	(1)	-	(11)
Change in the scope of consolidation	-	-	-	-	-	-	-
Business division transactions	-	-	(1)	-	(2)	-	(3)
Currency translation differences	(11)	(21)	(78)	(9)	-	(5)	(124)
Other changes	-	10	127	3	-	(140)	-
Final net value	**72**	**196**	**4,165**	**91**	**9**	**48**	**4,581**
Final gross value	72	1,058	11,317	563	114	70	13,194
Provision for amortisation and impairment	-	862	7,152	472	105	22	8,613
Dec. 31, 2018							
Opening net value	**72**	**196**	**4,165**	**91**	**9**	**48**	**4,581**
Capital expenditure	-	4	336	8	2	117	467
Depreciation, amortisation and impairment	-	(35)	(676)	(27)	(4)	-	(742)
Disposals	-	-	(4)	-	-	-	(4)
Change in the scope of consolidation	-	-	-	-	-	-	-
Business division transactions	-	-	-	-	-	-	-
Currency translation differences	(5)	6	20	2	-	1	24
Other changes	-	11	37	1	-	(49)	-
Final net value	**67**	**182**	**3,878**	**75**	**7**	**117**	**4,326**
Final gross value	67	1,087	11,641	571	107	139	13,612
Provision for amortisation and impairment	-	905	7,763	496	100	22	9,286

Capital expenditure in 2018 amounted to €467 million (€253 million in 2017) and mainly related to:
- €339 million in the Offshore Engineering & Construction sector: purchase of the vessel the Saipem Constellation and upgrading of the existing asset base;
- €17 million in the Onshore Engineering & Construction sector: purchase and maintenance of equipment;
- €65 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;
- €46 million for Onshore Drilling: upgrading of rigs for operations in Kazakhstan and South America, as well as the upgrading and maintaining of other assets.

No finance expenses were capitalised during the year.
The main amortisation rates were as follows:

(%)	
Buildings	2.50 - 15.00
Plant and equipment	7.00 - 25.00
Industrial and commercial equipment	3.33 - 50.00
Other assets	12.00 - 20.00

Exchange rate differences due to the translation of financial statements prepared in currencies other than euro, amounting to positive €24 million.
During the year, no government grants were recorded as a decrease of the carrying value of property, plant and equipment.
At December 31, 2018, all property, plant and equipment was free from pledges, mortgages and any other obligations.
The total commitment on current items of capital expenditure at December 31, 2018 is indicated in the 'Risk management' section of the 'Operating review'.
In 2018, Saipem SpA exercised its redemption option relative to two financial lease contracts stipulated in 2015 acquiring ownership of two drilling rig installations.
Due to the changed prospects of use in the middle term, some of onshore drilling rigs were written down, while several vessels leased FPSO for offshore drilling were partially written down following the impairment test, as specified in the next paragraph.

Impairment

In monitoring impairment indicators, Saipem considers, among other factors, the relationship between its market capitalisation and net assets. At December 31, 2018, the Group's market capitalisation was lower than its net assets, indicating a potential impairment of goodwill and/or of other assets. For this reason, the impairment test provided for checking the recoverable value of each cash generating unit ('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 the Offshore Drilling Division (10 separate rigs).

The CGUs were tested for impairment by comparing the carrying amount with the relative recoverable value which 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 individual CGU operates. In fact, considering the nature of Saipem's assets, the fair value of the CGUs cannot be determined from information directly observable on the market, and its estimate is based on alternative techniques, such as market multiples, would be of limited reliability in general and, in many cases, not readily applicable.

The expected future cash flows used to estimate the recoverable amount of the individual cash generating units are based on the best information available at the date of the review and, taking into account also actual results, consider future expectations of Division Management regarding the relevant markets. In particular, the estimate of cash flows in the first four years of projection made explicitly for purposes of the impairment test, is carried out on the basis of the projections of the Strategic Plan 2019-2022 approved by the Board of Directors in February 2019, expect for, coherently with the provisions of IAS 36, cash inflows or out flows deriving from: (i) a future restructuring still to be approved or to which the company is not committed yet, or (ii) the improvement or optimisation of business performance on the basis of initiatives still to be undertaken or approved, or for which there is still no commitment towards third parties for the increase of production capacity with respect to current capacity.

For the years following the last year of the Plan, the cash flows are 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 terminal 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% (not exceeding nominal growth rates expected in the long term for relevant energy sectors which consider market expectations in terms of real growth and inflation); (b) for the Leased FPSO Cidade de Vitoria cash generating unit and for the offshore drilling rigs, considering beyond the plan horizon (on the basis of the residual economic and technical life of the individual assets, or, if earlier the expected expiry date of the last cyclical maintenance): (i) long-term selling rates defined as part of the planning process, by the relevant Division, through an estimate procedure based on managerial assessments developed through a critical exercise on gathered information (both internal and external), inflated by 2% over the period of projection; (ii) 'normalised' idle days; (iii) operating costs based on figures of the last year of the plan, inflated by 2% (in line with revenues); (iv) investments and related plant down times for cyclical maintenance and replacements estimated by the divisions on the basis of the planned schedule for cyclical and intermediate maintenance.

As demonstrated in Note 4 '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, beginning with the Interim Consolidated Report as of June 30, 2018, changing 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 at December 31, 2018 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	9.9
Onshore E&C	9.4
XSIGHT	9.4
Leased FPSO	6.2
Offshore Drilling	7.7
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 assembled to take into consideration the specific business segment; (ii) average leverage of the same panel of operators (based on the latest data regarding debt and market capitalisation of the last 6 months); (iii) the average beta of the securities of companies belonging to the same panel on a long-term historical horizon. Post-tax cash flows and discount rates were used as they produce outcomes which are equivalent to those resulting form a valuation using pre-tax cash flows and discount rates.
The assumptions adopted take account of the level of interest rates in the last six months, the risks of the individual activities already included in the cash flows, and the expectations of long-term growth in the business.
The impairment test determined reductions in total value amounting to €335 million (of which €256 million in the first half of 2018) divided as follows: (i) a reduction in the carrying value of 5 offshore rigs (of the Offshore Drilling Division) for a total amount of €262 million (of which €196 million in the first half); (ii) a reduction in the carrying value of goodwill associated with the CGU Onshore E&C for an amount equal to €60 million (all in the first half - see Note 16 'Intangible assets'); (iii) a reduction of the carrying value of the Leased FPSO vessel (pertaining to the Onshore E&C Division) for a value of €13 million (all in the second half of the year).
Sensitivity analysis can be found below for the 11 CGU, with reference to 10 offshore drilling rigs and one Leased 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 16 '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) related 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 €119 million;
- decreases in the discount rate of 1% would produce a reduction in the impairment equal to €59 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 €78 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 €317 million;
- an increase in long-term euro/dollar exchange rate of 0.1 compared to the scenario assumed in plan projections would produce an increase in the impairment of €235 million;
- a decrease in long-term euro/dollar exchange rate of 0.1 compared to the scenario assumed in plan projections would produce a reduction in the impairment of €77 million;
- the use, for the FPSO Cidade de Vitoria CGU, of a discount rate of 6.4%, based on the specific WACC of the Leased FPSO business segment and including a possible premium for the additional risk linked to the country risk differential with respect to Italy, would not result in any change to the impairment of the period. This sensitivity is considered due to the fact that such CGU is traditionally dedicated to a specific country, with a local client, and because the country risk differential is positive with respect to Italy.

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 33% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 11.1%;
- use of a negative terminal growth rate.

Further, the excess of the recoverable amount over the value of the net capital employed in the Onshore Drilling CGU would increase in the event that working capital flows have been zeroed.

16 Intangible assets

Intangible assets of €702 million (€753 million December 31, 2017) consisted of the following:

(€ million)	Development costs	Industrial patents and intellectual property rights	Concessions, licences and trademarks	Assets under construction and advances	Other intangible assets	Total intangible assets with indefinite useful lives	Goodwill	Total intangible assets
Dec. 31, 2017								
Opening net value	**-**	**17**	**1**	**7**	**2**	**27**	**728**	**755**
Capital expenditure	-	6	-	3	-	9	-	9
Depreciation, amortisation and impairment	-	(10)	-	-	-	(10)	-	(10)
Currency translation differences and other changes	-	5	-	(5)	-	-	(1)	(1)
Final net value	**-**	**18**	**1**	**5**	**2**	**26**	**727**	**753**
Final gross value	7	188	19	5	11	230	-	-
Provision for amortisation and impairment	7	170	18	-	9	204	-	-
Dec. 31, 2018								
Opening net value	**-**	**18**	**1**	**5**	**2**	**26**	**727**	**753**
Capital expenditure	-	12	-	6	-	18	-	18
Depreciation, amortisation and impairment	-	(8)	(1)	-	-	(9)	(60)	(69)
Currency translation differences and other changes	-	1	1	(2)	-	-	-	-
Final net value	**-**	**23**	**1**	**9**	**2**	**35**	**667**	**702**
Final gross value	7	201	17	9	11	245	-	-
Provision for amortisation and impairment	7	178	16	-	9	210	-	-

Concessions, licences and trademarks, industrial patents and intellectual property rights of €1 million and €23 million, respectively, consisted mainly of costs for the implementation of SAP applications and modules at the parent company.
The main amortisation rates were as follows:

(%)	
Development costs	20.00 - 20.00
Industrial patents and intellectual property rights	6.66 - 33.30
Concessions, licences, trademarks and similar rights	20.00 - 20.00
Other intangible assets	20.00 - 33.00

Goodwill of €667 million related 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 (€12 million) on the date that control was acquired.
For impairment purposes, goodwill has been allocated to the following cash-generating units:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Offshore E&C	403	403
Onshore E&C	291	231
XSIGHT	33	33
Total	**727**	**667**

The change in the total goodwill compared to December 31, 2017, is due to a reduction in value, for €60 million (all in the first half of 2018), of the Saipem SA goodwill allocated to the Onshore E&C CGU as a result of the impairment test.
The recoverable amount of the three cash generating units was determined based on 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 15 'Property, plant and equipment'.

The table below shows, at December 31, 2018, 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	403	231	33	667
Amount by which recoverable amount exceeds carrying amount	124	1,882	48	2,054

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

Sensitivity 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 5% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 10.3%;
- use of a terminal growth rate equal to 1.5%.

Further, the excess of the recoverable amount over the value of the net capital employed in the Offshore Engineering & Construction CGU would be zeroed in the event of null cash flow form working capital and there would be an impairment of €448 million.

Sensitivity analysis on the Onshore Engineering & Construction CGU

The excess of the recoverable amount of the cash generating unit Onshore Engineering & Construction over is carrying amount, including the allocated portion of goodwill, is never reduced to zero for any variation of the discount rate and terminal growth rate, while it is reduced to zero when there is a reduction of 96% in the operating profit along the entire period of the plan and in perpetuity.

Further, the excess of the recoverable amount over the value of the net capital employed in the Onshore Engineering & Construction CGU would increase in the event that working capital cash flows have been zeroed.

Sensitivity analysis on the XSIGHT CGU

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

- decrease by 50% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 15.6%;
- use of a negative terminal growth rate.

Further, the excess of the recoverable amount over the value of the net capital employed in the XSIGHT CGU would increase in the event that working capital cash flows have been zeroed.

17 Investments

Investments accounted for using the equity method

Investments accounted for using the equity method of €119 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**	**-**
Dec. 31, 2018												
Investments in subsidiaries, joint ventures and associates	142	27	-	13	(57)	(3)	-	5	-	(8)	119	-
Total	**142**	**27**	**-**	**13**	**(57)**	**(3)**	**-**	**5**	**-**	**(8)**	**119**	**-**

Investments accounted for using the equity method are detailed in Note 6 'Scope of consolidation at December 31, 2018'.
The share of profit of investments accounted for using the equity method of €13 million mainly concern the results recorded by the associates.
The share of losses of investments accounted for using the equity method of €57 million included losses for the period of €46 million recorded by the joint venture companies and €11 million for the period recorded by associates.
Deductions for dividends of €3 million related mainly to joint venture enterprises.
The other changes, for €8 million include for €2 million the equity investment in Tecnoprojecto Internacional Projectos e Realizações Industriais SA reclassified as detailed in Note 31 'Assets held for sale' and for €1 million for capital losses on liquidated joint venture enterprises.
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 Dec. 31, 2018
Rosetti Marino SpA	20.00	30	30
Petromar Lda	70.00	42	39
Other		70	50
Total investments accounted for using the equity method		**142**	**119**

The total carrying value of investments accounted for using the equity method does not include the provision for losses of €41 million (€2 million at December 31, 2017) recorded under the provisions for contingencies.

Other investments

The other investments as of December 31, 2018, are not significant (€1 million as of December 31, 2017).

Other information about investments

The following table summarises key financial data from the IFRS financial statements of non-consolidated subsidiaries, joint ventures and associates accounted for using the equity method or recorded at cost, in proportion to the Group interest held:

	Dec. 31, 2017			Dec. 31, 2018		
(€ million)	Subsidiaries	Joint ventures	Associates	Subsidiaries	Joint ventures	Associates
Total assets	-	290	264	-	172	407
of which cash and cash equivalents	-	25	44	-	43	24
Total liabilities	1	223	190	-	170	331
Net revenues	1	285	173	-	120	154
Operating profit	-	(8)	8	-	(57)	21
Net profit (loss) for the year	-	(16)	7	-	(89)	2

The table below shows income statement and balance sheet data from the joint ventures (full amounts shown).

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Current assets	607	289
- of which cash and cash equivalents	*52*	*95*
Non-current assets	88	74
Total assets	**695**	**363**
Current liabilities	549	273
- of which current financial liabilities	*1*	*1*
Non-current liabilities	21	148
- of which non-current financial liabilities	-	*133*
Total liabilities	**570**	**421**
Shareholders' equity	**125**	**(58)**
Carrying amount of investment	**67**	**2**
Revenues and other operating income	730	279
Operating expenses	(737)	(432)
Depreciation, amortisation and impairment	(16)	(14)
Operating result	**(23)**	**(167)**
Finance income (expense)	(17)	(90)
Income (expense) from investments	1	(1)
Result before income taxes	**(39)**	**(258)**
Income taxes	(1)	(6)
Net profit (loss) for the year	**(40)**	**(264)**
Other items of comprehensive income	(19)	14
Total comprehensive income (loss) for the year	**(59)**	**(250)**
Net profit (loss) attributable to Group	**(16)**	**(89)**
Dividends to the Group approved by joint ventures	**-**	**3**

The table below shows income statement and balance sheet data from the associates (full amounts shown).

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Current assets	578	842
- of which cash and cash equivalents	*142*	*77*
Non-current assets	228	213
Total assets	**806**	**1,055**
Current liabilities	414	691
- of which current financial liabilities	*41*	*68*
Non-current liabilities	127	92
- of which non-current financial liabilities	*56*	*21*
Total liabilities	**541**	**783**
Shareholders' equity	**265**	**272**
Carrying amount of investment	**74**	**76**
Revenues and other operating income	521	480
Operating expenses	(477)	(396)
Depreciation, amortisation and impairment	(27)	(27)
Operating result	**17**	**57**
Finance income (expense)	-	(40)
Income (expense) from investments	-	-
Result before income taxes	**17**	**17**
Income taxes	(3)	(8)
Net profit (loss) for the year	**14**	**9**
Other items of comprehensive income	(15)	4
Total comprehensive income (loss) for the year	**(1)**	**13**
Net profit (loss) attributable to Group	**7**	**2**
Dividends to the Group approved by associates	**2**	**-**

18 Deferred tax assets

Deferred tax assets of €250 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	Dec. 31, 2018
Deferred tax assets	268	111	(170)	2	39	250
Total	**268**	**111**	**(170)**	**2**	**39**	**250**

The item 'Other changes', which amounted to positive €39 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €29 million); (ii) the positive tax effects (€9 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; (iii) other changes (positive €1 million).
Net deferred tax assets consisted of the following:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Deferred tax liabilities	(169)	(123)
Offsettable deferred tax assets	134	105
Net deferred tax liabilities	**(35)**	**(18)**
Non-offsettable deferred tax assets	268	250
Net deferred tax assets (liabilities)	**233**	**232**

The most significant temporary differences giving rise to net deferred tax assets are as follows:

(€ million)	Dec. 31, 2017	Effect of adopting IFRS 15 January 1, 2018	Additions	Deductions	Exchange rate differences	Other changes	Dec. 31, 2018
Deferred tax liabilities:							
- accelerated tax depreciation	(93)	-	(4)	3	(1)	(1)	(96)
- hedging derivatives	(22)	-	-	11	-	9	(2)
- employee benefits	(1)	-	-	-	-	-	(1)
- non distributed reserves held by investments	(15)	-	(1)	-	-	1	(15)
- project progress status	(3)	-	(2)	2	-	-	(3)
- other	(35)	1	-	28	-	-	(6)
	(169)	**1**	**(7)**	**44**	**(1)**	**9**	**(123)**
less:							
Offsettable deferred tax liabilities	134	-	-	-	-	(29)	105
Deferred tax liabilities	**(35)**	**1**	**(7)**	**44**	**(1)**	**(20)**	**(18)**
Deferred tax assets:							
- impairment losses and provisions for non-deductible contingencies	63	-	44	(32)	-	1	76
- non-deductible depreciation	40	-	1	(3)	-	-	38
- hedging derivatives	3	-	2	(2)	-	9	12
- employee benefits	24	-	12	(6)	-	-	30
- tax losses carry forward	798	-	143	(95)	(8)	(1)	837
- project progress status	44	-	3	(20)	-	-	27
- other	65	-	22	(35)	1	-	53
	1,037	**-**	**227**	**(193)**	**(7)**	**9**	**1,073**
less:							
- unrecognised deferred tax assets	(635)	-	(116)	23	9	1	(718)
	402	**-**	**111**	**(170)**	**2**	**10**	**355**
less:							
Offsettable deferred tax assets	(134)	-	-	-	-	29	(105)
Deferred tax assets	**268**	**-**	**111**	**(170)**	**2**	**39**	**250**
Net deferred tax assets (liabilities)	**233**	**1**	**104**	**(126)**	**1**	**19**	**232**

Unrecognised deferred tax assets of €718 million (€635 million at December 31, 2017) mainly related to tax losses that it will probably not be possible to utilise against future income.

Tax losses

Tax losses amounted to €3,207 million (€2,989 million at December 31, 2017), of which €2,368 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 26.8% for foreign companies.
Tax losses related mainly to foreign companies and can be used in the following periods:

(€ million)	Italy	Outside Italy
2019	-	25
2020	-	24
2021	-	46
2022	-	33
2023	-	11
After 2023	-	700
Without limit	792	1,576
Total	**792**	**2,415**

Taxes are shown in Note 49 'Income taxes'.

19 Other non-current assets

Other non-current assets of €67 million (€102 million at December 31, 2017) were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Fair value on derivatives financial instruments	6	-
Other receivables	15	11
Other non-current assets	81	56
Total	**102**	**67**

The fair value of derivative financial instruments is commented on Note 30 'Derivative financial instruments'.
Other non-current assets mainly related to prepayments.
Other non-current assets from related parties are shown in Note 53 'Transactions with related parties'.

CURRENT LIABILITIES

20 Short-term debt

Short-term debt of €80 million (€120 million at December 31, 2017) consisted of the following:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Banks	114	73
Other financial institutions	6	7
Total	**120**	**80**

Short-term debt decreased by €40 million. The current portion of long-term debt, amounting to €225 million (€69 million at December 31, 2017), is detailed in Note 25 '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			Dec. 31, 2018		
			Interest rate %			Interest rate %	
Issuing institution	Currency	Amount	from	to	Amount	from	to
Third parties	Euro	50	0.05	0.05	4	0.00	0.00
Third parties	US Dollar	2	0.00	0.00	1	0.00	0.00
Third parties	Other	68	variable		75	variable	
Total		**120**			**80**		

At December 31, 2018, Saipem had uncommitted lines of credit amounting to €283 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 53 'Transactions with related parties'.

21 Trade and other payables and contract liabilities

Trade and other payables

Trade and other payables of €2,674 million (€2,571 million at December 31, 2017) consisted of the following:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Trade payables	2,179	2,372
Other payables	392	302
Total	**2,571**	**2,674**

Trade payables amounted to €2,372 million, representing an increase of €193 million compared with December 31, 2017.
Trade and other payables to related parties are shown in Note 53 'Transactions with related parties'.
Other payables of €302 million were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Payables to:		
- employees	131	147
- national insurance/social security contributions	59	59
- insurance companies	3	3
- consultants and professionals	4	7
- Board Directors and Statutory Auditors	1	1
Other payables	194	85
Total	**392**	**302**

The decrease in other payables refers mainly to the payment of the amount due to the LPG arbitration award with Sonatrach. 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 €1,205 million (€1,465 million at December 31, 2017) consisted of the following:

(milioni di euro)	Dec. 31, 2017	Dec. 31, 2018
Contract liabilities (from work in progress)	984	681
Advances from clients	481	524
Total	**1,465**	**1,205**

Contract liabilities (from work in progress) of €681 million (€984 million at December 31, 2017) relates to adjustments in revenue invoiced on long-term contracts, in order to comply with the principle of entry on an accruals basis, in application of the accounting policies based on the contractual amounts accrued.
Regarding the contract liabilities of €984 million at December 31, 2017, €938 million were recognised as relevant income in 2018 for works milestones reached.
Advances from clients of €524 million (€481 million as of December 31, 2017), received on contracts in execution, refer to the parent company and a number of foreign subsidiaries.
Contract liabilities to related parties are shown in Note 53 'Transactions with related parties'.

22 Income tax payables

Income tax payables amounted to €46 million (€47 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Italian tax authorities	-	1
Foreign tax authorities	47	45
Total	**47**	**46**

23 Other current tax payables

Other current tax payables amounted to €108 million (€191 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Italian tax authorities:	12	14
- VAT	-	1
- other	12	13
Foreign tax authorities:	179	94
- indirect tax	129	41
- other	50	53
Total	**191**	**108**

The decrease of other current tax payables refers mainly to the offsetting of payables by indirect taxes due to foreign financial authorities with the receivables for indirect taxes.

24 Other current liabilities

Other current liabilities amounted to €92 million (€24 million at December 31, 2017) and were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Fair value on derivatives financial instruments	17	86
Other liabilities	7	6
Total	**24**	**92**

The fair value of derivative financial instruments is commented on Note 30 'Derivative financial instruments'.
Other liabilities amounted to €6 million (€7 million at December 31, 2017).
Other liabilities to related parties are shown in Note 53 'Transactions with related parties'.

NON-CURRENT LIABILITIES

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

Long-term debt, including the current portion of long-term debt, amounted to €2,871 million (€2,998 million at December 31, 2017) and was as follows:

	Dec. 31, 2017			Dec. 31, 2018		
(€ million)	Short-term maturity	Long-term maturity	Total	Short-term maturity	Long-term maturity	Total
Banks	33	941	974	187	655	842
Ordinary bonds	28	1,988	2,016	38	1,991	2,029
Other financial institutions	8	-	8	-	-	-
Total	**69**	**2,929**	**2,998**	**225**	**2,646**	**2,871**

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

(€ million)

Type	Maturity range	2020	2021	2022	2023	After	Total
Banks	2020-2027	169	134	120	96	136	655
Ordinary bonds	2021-2025	-	498	498	499	496	1,991
Total		**169**	**632**	**618**	**595**	**632**	**2,646**

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

(€ million)	Accounting value at Dec. 31, 2018	Short-term maturity Dec. 31, 2019	Long-term maturity 2020	2021	2022	2023	After	Total future payments as Dec. 31, 2018
Banks	842	190	176	137	123	98	136	860
Ordinary bonds	2,029	41	-	500	500	500	500	2,041
Total	**2,871**	**231**	**176**	**637**	**623**	**598**	**636**	**2,901**

The difference of €30 million between the value of the long-term debt recorded in the financial statements at December 31, 2018 and the total of future payments derived from the measurement using the amortised cost method.
The long-term portion of long-term debt amounted to €2,646 million, down €283 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			Dec. 31, 2018		
				Interest rate %			Interest rate %	
Issuing institution	Currency	Maturity range	Amount	from	to	Amount	from	to
Third parties	Euro	2019-2027	2,998	0.90	4.10	2,871	0.90	3.75
Total			**2,998**			**2,871**		

There was no debt secured by mortgages or liens on fixed assets of consolidated companies and by pledges on securities.
The fair value of long-term debt, including the current portion of long-term debt, amounted to €2,875 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	0.23-4.23

The market value of listed financial instruments was calculated using the closing stock price at the last available date of the year.
The difference in the market value of long-term debt with respect to nominal value is mainly related to bond issues outstanding at the date.
At December 31, 2018, Saipem had unused committed credit lines amounting to €1,258 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 53 'Transactions with related parties'.

Analyses of net borrowings

Net borrowings indicated in 'Financial and economic results' of the 'Directors' Report' are shown below:

	Dec. 31, 2017			Dec. 31, 2018		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	1,751	-	1,751	1,674	-	1,674
B. Available-for-sale securities	69	-	69	86	-	86
C. Liquidity (A+B)	**1,820**	**-**	**1,820**	**1,760**	**-**	**1,760**
D. Financing receivables	**2**	**-**	**2**	**32**	**-**	**32**
E. Short-term bank debt	114	-	114	73	-	73
F. Long-term bank debt	33	941	974	187	655	842
G. Short-term related parties debt	-	-	-	-	-	-
H. Ordinary bond	28	1,988	2,016	38	1,991	2,029
I. Long-term related parties debt	-	-	-	-	-	-
L. Other short-term debt	6	-	6	7	-	7
M. Other long-term debt	8	-	8	-	-	-
N. Total borrowings (E+F+G+H+I+L+M)	**189**	**2,929**	**3,118**	**305**	**2,646**	**2,951**
O. Net financial position pursuant to Consob Communication No. DEM/6064293/2006 (N-C-D)	**(1,633)**	**2,929**	**1,296**	**(1,487)**	**2,646**	**1,159**
P. Non-current financing receivables	**-**	**-**	**-**	**-**	**-**	**-**
Q. Net borrowings (O-P)	**(1,633)**	**2,929**	**1,296**	**(1,487)**	**2,646**	**1,159**

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 14 'Other current assets', Note 19 'Other non-current assets', Note 24 'Other current liabilities' and Note 29 'Other non-current liabilities'.
Cash and cash equivalents included €76 million deposited in accounts that are frozen or are time deposits, as indicated in Note 8 'Cash and cash equivalents'.
The change compared to the balance at December 31, 2017, negative for €137 million, is mainly due to the cash flow generated during the year net of investments for the period.
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	Currency translation differences	Change in the fair value	Other non-monetary changes	Dec. 31, 2018
Short-term debt	120	(45)	-	5	-	-	80
Long-term debt and current portion of long-term debt	2,998	(127)	-	-	-	-	2,871
Total liabilities from financing activities	**3,118**	**(172)**	**-**	**5**	**-**	**-**	**2,951**

26 Provisions for contingencies

Provisions for contingencies of €330 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 provisions	76	104	(54)	(6)	120
Total	**268**	**205**	**(135)**	**2**	**340**
Dec. 31, 2018					
Provisions for taxes	69	6	(10)	-	65
Provisions for contractual penalties and disputes	74	69	(17)	-	126
Provisions for losses of investments	2	43	-	(4)	41
Provision for contractual expenses and losses on long-term contracts	50	34	(46)	19	57
Provisions for redundancy incentives	25	-	(18)	-	7
Other provisions	120	10	(74)	(22)	34
Total	**340**	**162**	**(165)**	**(7)**	**330**

The **provisions for taxes** amounted to €65 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 €126 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 €41 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** amounted to €57 million and included the estimate of losses of the Offshore and Onshore Engineering & Construction Divisions for €28 million and the fund for final project costs for the amount of €29 million.
The **provisions for redundancy incentives** amounted to €7 million and related to provisions in foreign subsidiaries.
Other provisions amounted to €34 million.
For details on amounts relating to completed projects in Algeria, see Note 57 'Additional information: Algeria'.

27 Provisions for employee benefits

Provisions for employee benefits amounted to €208 million (€199 million at December 31, 2017) and consisted of the following:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
TFR	43	39
Foreign defined benefit plans	82	80
FISDE and other health plans	20	22
Other provisions for long-term employee benefits	54	67
Total	**199**	**208**

Provisions for indemnities upon termination of employment primarily related to the provisions accrued by Italian companies for employee termination indemnities ('TFR'), determined using actuarial techniques and regulated by Article 2120 of the Italian Civil Code. The indemnity is paid upon retirement as a lump sum payment and is determined by the total of the accruals during the employees' service period based on payroll costs as revalued until retirement.
As a result of legislative changes starting from January 1, 2007, post-retirement indemnities under the Italian TFR are paid into pension funds or treasury fund held by the Italian administration for post-retirement benefits (Inps). For companies with less than 50 employees it is possible to continue the scheme as in previous years.
The allocation of future TFR provisions to private pension funds or to the Inps fund meant that a significant part of these amounts would be classified as costs to provide benefits under a defined contribution plan because company obligations are exclusively represented through contributions to the pension fund or Inps. Past provisions accrued for post-retirement indemnities under the Italian TFR regime continue to represent costs to provide benefits under a defined benefit plan and must be assessed based on actuarial assumptions.
Foreign defined benefit plans related to:
- defined benefit plans of foreign companies located, primarily, in France, Switzerland, the United Kingdom and Norway;
- pension provisions and similar obligations for personnel employed abroad, to whom local legislation applies.

Benefits consist of a return on capital determined on the basis of the length of service and the compensation paid in the last year of service or an average annual compensation paid in a determined period preceding retirement.
Liabilities and costs related to supplementary medical reserve for Eni managers (FISDE) are calculated on the basis of the contributions paid by the company for retired managers.
Other provisions for long-term employee benefits related mainly to long-term incentive plans, jubilee awards, the voluntary redundancy incentive plan (Article 4, Law No. 92/2012) and other long-term plans.
The long-term incentive plans, as well as the jubilee awards represent long-term benefit plans. The long-term incentive plans (LTI) include the estimate, which was determined based on actuarial assumptions, of the amount to be paid to the beneficiaries under the condition that they remained employed for a three year period after the allocation of the incentive; the determined cost is allocated on a 'pro rata temporis' basis during the vesting period. The Company has provided long-term incentives also for middle-management employees, as well as for those with the qualification of managers. Jubilee awards are benefits due following the attainment of a minimum period of service and, with regard to the Italian companies, they consist of remuneration in kind.
The voluntary redundancy incentive plan, allocated following an agreement which implemented the provisions of Article 4, Law No. 92/2012, and which was dated May 23, 2016 between Saipem SpA representatives of the main Trade Union Organisations in order to implement, in the least traumatic way possible, a correct re-structuring of personnel, includes the estimate of charges, determined on an actuarial basis, connected to offers for early, consensual termination of the employment relationship.

Provisions for employee benefits calculated using actuarial techniques are detailed below:

(€ million)	Dec. 31, 2017 TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total	Dec. 31, 2018 TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total
Present value of benefit obligation at beginning of year	**50**	**153**	**20**	**54**	**277**	**43**	**161**	**20**	**54**	**278**
Current cost	-	14	1	7	22	-	14	1	5	20
Interest expense	-	4	-	-	4	1	3	-	1	5
Remeasurements:	(2)	3	-	(6)	(5)	-	(5)	2	(3)	(6)
- actuarial gains and losses arising from changes in demographic assumptions	-	-	-	-	-	-	*(2)*	-	-	*(2)*
- actuarial gains and losses arising from changes in financial assumptions	*(1)*	*1*	-	*(5)*	*(5)*	-	*(3)*	-	-	*(3)*
- experience adjustments	*(1)*	*2*	-	*(1)*	-	-	-	*2*	*(3)*	*(1)*
Past service cost and gains/losses arising from settlements	-	3	-	19	22	-	(6)	-	29	23
Contributions to plan:	-	-	-	(3)	(3)	-	-	-	(2)	(2)
- contributions to plan by employees	-	-	-	-	-	-	-	-	-	-
- contributions to plan by employer	-	-	-	*(3)*	*(3)*	-	-	-	*(2)*	*(2)*
Benefits paid	(5)	(16)	(1)	(16)	(38)	(5)	(14)	(1)	(17)	(37)
Business division transactions	-	(1)	-	(1)	(2)	-	-	-	-	-
Exchange rate difference and other changes	-	1	-	-	1	-	-	-	-	-
Present value of benefit obligation at end of year	**43**	**161**	**20**	**54**	**278**	**39**	**153**	**22**	**67**	**281**
Plan assets at beginning of year	**-**	**71**	**-**	**-**	**71**	**-**	**79**	**-**	**-**	**79**
Interest income	-	1	-	-	1	-	1	-	-	1
Return on plan assets	-	1	-	-	1	-	(3)	-	-	(3)
Past service cost and gains/losses arising from settlements	-	-	-	-	-	-	(3)	-	-	(3)
Contributions to plan:	-	4	-	-	4	-	4	-	-	4
- contributions to plan by employees	-	-	-	-	-	-	-	-	-	-
- contributions to plan by employer	-	*4*	-	-	*4*	-	*4*	-	-	*4*
Benefits paid	-	(4)	-	-	(4)	-	(4)	-	-	(4)
Exchange rate differences and other changes	-	6	-	-	6	-	(1)	-	-	(1)
Plan assets at year end	**-**	**79**	**-**	**-**	**79**	**-**	**73**	**-**	**-**	**73**
Net liability	**43**	**82**	**20**	**54**	**199**	**39**	**80**	**22**	**67**	**208**

The value of the net liability for other provisions for long-term employee benefits of €67 million (€54 million December 31, 2017) related to the voluntary redundancy incentive plan for €36 million (€23 million at December 31, 2017), other foreign long-term plans for €24 million (€24 million at December 31, 2017), jubilee awards for €6 million (€5 million at December 31, 2017) and the long-term incentive plan for €1 million (€1 million at December 31, 2017). During 2018, deferred monetary incentives were closed (€1 million at December 31, 2017).

Costs for employee benefits determined using actuarial assumptions charged to the income statement are detailed below:

	Dec. 31, 2017					Dec. 31, 2018				
(€ million)	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total
Current cost	-	14	1	7	22	-	14	1	5	20
Past service cost and gains/losses arising from settlements	-	3	-	19	22	-	(3)	-	29	26
Net interest expense (income):										
- interest expense on obligation	-	4	-	-	4	1	3	-	1	5
- interest income on plan assets	-	(1)	-	-	(1)	-	(1)	-	-	(1)
Total net interest income (expense)	-	3	-	-	3	1	2	-	1	4
of which recognised in payroll costs	-	-	-	-	-	-	-	-	*1*	*1*
of which recognised in finance income (expense)	-	*3*	-	-	*3*	*1*	*2*	-	-	*3*
Remeasurement of long-term plans	-	-	-	(6)	(6)	-	-	-	(3)	(3)
Total	**-**	**20**	**1**	**20**	**41**	**1**	**13**	**1**	**32**	**47**
of which recognised in payroll costs	-	*17*	*1*	*20*	*38*	-	*11*	*1*	*32*	*44*
of which recognised in finance income (expense)	-	*3*	-	-	*3*	*1*	*2*	-	-	*3*

Costs for defined benefit plans recognised in other comprehensive income were as follows:

	2017				2018			
(€ million)	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Total	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Total
Remeasurements:								
- actuarial gains and losses arising from changes in demographic assumptions	-	-	-	-	-	(2)	-	(2)
- actuarial gains and losses arising from changes in financial assumptions	(1)	1	-	-	-	(3)	-	(3)
- experience adjustments	(1)	2	-	1	-	-	2	2
- return on plan assets	-	(1)	-	(1)	-	3	-	3
Total	**(2)**	**2**	**-**	**-**	**-**	**(2)**	**2**	**-**

Plan assets consisted of the following:

(€ million)	Cash and cash equivalents	Equity instruments	Debt instruments	Property	Derivative financial instruments	Mutual funds	Assets held by insurance companies	Structured debt securities	Other assets	Total
Plan assets:										
- prices quoted in active markets	8	13	24	3	8	6	10	-	1	73
- prices not quoted in active markets	-	-	-	-	-	-	-	-	-	-
Total	**8**	**13**	**24**	**3**	**8**	**6**	**10**	**-**	**1**	**73**

The main actuarial assumptions used in the evaluation of post-retirement benefit obligations at year end and the estimate of costs expected for 2018 were as follows:

		TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits
2017					
Main actuarial assumptions:					
- discount rates	(%)	1.50	0.65-14.10	1.50-7.50	0.00-7.50
- rate of compensation increase	(%)	2.00	1.00-8.00	-	0.00-6.00
- expected rate of return on plan assets	(%)	-	0.65-6.00	-	-
- rate of inflation	(%)	1.50	1.00-18.00	1.50-5.00	0.00-5.00
- life expectancy at 65 years	(years)	-	15-25	20-25	-
2018					
Main actuarial assumptions:					
- discount rates	(%)	1.50	0.90-15.60	1.50-7.50	0.20-7.50
- rate of compensation increase	(%)	2.00	1.00-10.83	-	0.00-6.00
- expected rate of return on plan assets	(%)	-	0.90-7.50	-	-
- rate of inflation	(%)	1.50	0.90-14.40	1.50-5.00	1.50-5.00
- life expectancy at 65 years	(years)	-	15-25	20-25	-

The main actuarial assumptions used by geographical area were as follows:

		Eurozone	Rest of Europe	Africa	Others
2017					
Discount rates	(%)	0.00-1.50	2.40	3.70-14.10	2.20-7.50
Rate of compensation increase	(%)	0.00-2.00	2.50	3.00-5.20	1.00-7.00
Rate of inflation	(%)	0.00-1.50	1.50-3.20	3.70-14.80	3.00-18.00
Life expectancy at 65 years	(years)	22-25	15-25	15	17
2018					
Discount rates	(%)	0.20-1.50	0.90-2.70	3.70-15.60	2.90-9.00
Rate of compensation increase	(%)	0.00-2.00	2.75	3.00-5.20	2.36-10.83
Rate of inflation	(%)	1.50	0.90-3.25	3.70-14.40	2.00-5.00
Life expectancy at 65 years	(years)	22-25	15-25	15	17

The discount rate used was determined based on market yields on primary corporate bonds (AA rating) in countries with a sufficiently deep market. Where these were not available, government bonds were considered.
The inflation rates used were based on long-term forecasts prepared by domestic and international banking institutions.
The demographic tables employed are those used by local actuaries to perform IAS 19 measurements, taking into account any updates.
The effects of reasonably possible changes in the actuarial assumptions at year end were as follows:

(€ million)	Discount rate		Rate of inflation	Rate of compensation increase	Expected rates of pension increase	Rate of health cost increase
	0.5% increase	0.5% decrease	0.5% increase	0.5% increase	0.5% increase	1% increase
Impact on net defined benefit obligation	**(14)**	**15**	**(9)**	**6**	**-**	**1**
TFR	(2)	2	1	-	-	-
Foreign defined benefit plans	(9)	10	(10)	5	-	-
FISDE and other foreign health plans	(1)	1	-	-	-	1
Other provisions for long-term employee benefits	(2)	2	-	1	-	-

The sensitivity analysis was performed by applying the modified parameters to the results of the analyses conducted for each plan.
The amount expected to be accrued to foreign defined benefit plans in the subsequent year is €4 million.

The maturity profile of employee defined benefit plan obligations is as follows:

(€ million)	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits
2019	1	10	1	14
2020	1	10	1	11
2021	2	11	1	9
2022	2	11	1	6
2023	2	11	1	3
After	16	56	5	8

The weighted average duration of obligations is as follows:

(anni)	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits
2017	10	12	15	11
2018	10	12	15	6

28 Deferred tax liabilities

Deferred tax liabilities of €18 million (€35 million at December 31, 2017) are shown net of offsettable deferred tax assets of €105 million.

(€ million)	Dec. 31, 2017	Effect of adopting IFRS 15 Jan. 1, 2018	Additions	Deductions	Currency translation differences	Other changes	Dec. 31, 2018
Deferred tax liabilities	35	(1)	7	(44)	1	20	18
Total	**35**	**(1)**	**7**	**(44)**	**1**	**20**	**18**

The item 'Other changes', which amounted to positive €20 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €29 million); (ii) the negative tax effects (€9 million) of fair value changes of derivatives designated as cash flow hedges reported in equity.
A breakdown of deferred tax liabilities is provided in Note 18 'Deferred tax assets'.

29 Other non-current liabilities

Other non-current liabilities of €9 million (€1 million at December 31, 2017) were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Fair value on derivatives financial instruments	1	9
Total	**1**	**9**

The fair value of derivative financial instruments is commented on Note 30 'Derivative financial instruments'.

30 Derivative financial instruments

	Dec. 31, 2017		Dec. 31, 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	5
- sale	72	-	3	37
Forward currency contracts (Forward component)				
- purchase	-	-	2	-
- sale	(14)	2	(1)	18
Forward commodity contracts (Forward component)				
- purchase	2	-	-	1
- sale	-	-	-	-
Total derivative contracts qualified for hedge accounting	**63**	**10**	**8**	**62**
Derivative contracts not qualified for hedge accounting				
Forward currency contracts (Spot component)				
- purchase	1	10	2	4
- sale	38	-	6	21
Forward currency contracts (Forward component)				
- purchase	1	(1)	1	(1)
- sale	(6)	-	(1)	10
Forward commodity contracts (Forward component)				
- purchase	-	-	-	-
- sale	-	-	-	-
Total derivative contracts not qualified for hedge accounting	**34**	**9**	**8**	**34**
Total derivative contracts	**97**	**19**	**16**	**96**
Of which:				
- current	91	17	16	86
- non-current (including IRS, Note 25 'Long-term debt and current portion of long-term debt')	6	2	-	10

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

	Dec. 31, 2017		Dec. 31, 2018	
(€ million)	Assets	Liabilities	Assets	Liabilities
Purchase commitments				
Derivative contracts qualified for hedge accounting:				
- interest rate contracts	-	250	-	150
- currency contracts	318	615	250	424
- commodity contracts	5	-	-	21
Derivative contracts not qualified for hedge accounting				
- currency contracts	222	734	214	438
	545	**1,599**	**464**	**1,033**
Sale commitments				
Derivative contracts qualified for hedge accounting:				
- currency contracts	1,975	285	342	1,330
Derivative contracts not qualified for hedge accounting				
- currency contracts	1,304	71	566	1,297
	3,279	**356**	**908**	**2,627**

The fair value of derivative instruments was determined using valuation models commonly used in the financial sector and based on year-end market data (exchange and interest rates).
The fair value of forward contracts (forward outrights and currency swaps) was determined by comparing the net present value at contractual conditions of forward contracts outstanding at December 31, 2018, with their present value recalculated at year-end market conditions. The model used is the Net Present Value model, which is based on the forward contract exchange rate, the year-end exchange rate and the respective forward interest rate curves.

A liability of €1 million (€1 million at December 31, 2017) relating to the fair value of an interest rate swap has been recorded under Note 25 '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 December 31, 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 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 December 31, 2018 are expected to occur up until 2020.
During 2018, there were no cases of hedged items being no longer considered highly probable.
The positive fair value of derivatives qualified for hedge accounting at December 31, 2018 totalled €8 million (€63 million at December 31, 2017). The spot component of these derivatives of €7 million (€75 million at December 31, 2017) was deferred in a hedging reserve in equity for a total of €6 million (€64 million at December 31, 2017) and recorded as finance income and expense for a total of €1 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 €1 million (-€14 million at December 31, 2017).
The negative fair value of derivatives qualified for hedge accounting at December 31, 2018 totalled €62 million (€10 million at December 31, 2017). The spot component of these derivatives of €42 million was deferred in a hedging reserve in equity for a total of €46 million (€7 million at December 31, 2017) and recorded as finance income and expense for -€4 million. The forward component was recognised as finance income and expense for €18 million (€2 million at December 31, 2017).
With regard to commodities contracts, the fair value of €1 million was suspended in the hedging reserve.
The change in the hedging reserve between December 31, 2017 and December 31, 2018 was due to fair value changes in hedges that were effective for the whole year; new hedging relations designated during the year; and to the transfer of hedging gains or losses from equity to the income statement either because the hedged transactions affected profit or loss, or following the termination of the hedge against risk exposures which are no longer certain or highly probable.

(€ million)	Dec. 31, 2017	Profit for the period	Loss for the period	EBITDA adjusted profits	EBITDA adjusted losses	Gains due to cancellation of underlying	Losses due to cancellation of underlying	Dec. 31, 2018
Exchange rate hedge reserve								
Saipem SpA	52	80	(135)	(86)	58	(30)	29	(32)
Saipem SA	-	24	(30)	(34)	39	-	-	(1)
Sofresid SA	(20)	6	(11)	(22)	47	-	-	-
Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	4	7	(16)	(12)	14	(5)	5	(3)
Saipem Ltd	-	7	(9)	(7)	7	-	-	(2)
Saipem Misr for Petroleum Services (SAE)	9	11	(21)	(20)	15	(1)	1	(6)
Servizi Energia Italia SpA	3	6	(17)	(6)	12	-	-	(2)
Snamprogetti Saudi Arabia Co Ltd Llc	1	-	(2)	-	1	-	-	-
Saudi Arabian Saipem Ltd	-	-	(1)	-	-	-	-	(1)
Snamprogetti Engineering & Contracting Co Ltd	-	-	(1)	-	1	-	-	-
Total exchange rate hedge reserve	**49**	**141**	**(243)**	**(187)**	**194**	**(36)**	**35**	**(47)**
Commodity hedge reserve								
Saipem Ltd	2	1	-	(3)	-	-	-	-
Snamprogetti Saudi Arabia Co Ltd Llc	-	-	(1)	-	-	-	-	(1)
Total commodity hedge reserve	**2**	**1**	**(1)**	**(3)**	**-**	**-**	**-**	**(1)**
Interest rate hedge reserve								
Saipem SpA	-	-	(1)	-	-	-	-	(1)
Total interest rate hedge reserve	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Total hedge reserve	**51**	**142**	**(245)**	**(190)**	**194**	**(36)**	**35**	**(49)**

During 2018, operating revenues and expenses were adjusted by a net negative amount of €6 million to reflect the effects of hedging.
Information on hedged risks and carrying amounts and the related effect on income statement and equity are provided in Note 39 'Guarantees, commitments and risks'. Information on hedging policy is provided in Note 3 'Summary of significant accounting policies' in the 'Financial risk management' section.

31 Assets held for sale

Assets held for sale concern Tecnoprojecto International Projectos e Realizações Industriais SA, the sale of which was completed by the parent company Saipem SA in February 2019.

SHAREHOLDERS' EQUITY

32 Non-controlling interests

Non-controlling interests at December 31, 2018 amounted to €74 million (€41 million at December 31, 2017).
The composition of the non-controlling interests is shown below.

	Net profit (loss) for the year		Shareholders' equity	
(€ million)	2017	2018	2017	2018
ER SAI Caspian Contractor Llc	10	58	13	65
Saudi Arabian Saipem Ltd	6	4	19	-
Snamprogetti Engineering & Contracting Co Ltd	4	-	6	7
Other	1	-	3	2
Total	**21**	**62**	**41**	**74**

During 2018, it should be noted that Saipem International BV acquired a 40% interest and shareholding in Saudi Arabian Saipem Ltd, which is therefore entirely held by the Group as of December 31, 2018.

33 Saipem's shareholders' equity

Saipem's shareholders' equity at December 31, 2018 amounted to €3,962 million (€4,558 million at December 31, 2017) and was as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Share capital	2,191	2,191
Share premium reserve	1,049	553
Legal reserve	88	88
Investments carried at fair value	1	-
Cash flow hedge reserve	41	(40)
Available for sale financial instruments carried at fair value	(1)	(3)
Cumulative currency translation differences	(154)	(107)
Employee defined benefits reserve	(21)	(21)
Other	2	(39)
Retained earnings	1,786	1,907
Net profit (loss) for the year	(328)	(472)
Negative reserve for treasury shares in portfolio	(96)	(95)
Total	**4,558**	**3,962**

Saipem's shareholders' equity at December 31, 2018 included distributable reserves of € 1,654 million, some of which are subject to taxation upon distribution.
A deferred tax liability has been recorded in relation to the share of reserves that may potentially be distributed (€15 million).

34 Share capital

At December 31, 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.

35 Share premium reserve

At December 31, 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 Statement 2017.

36 Other reserves

At December 31, 2018, 'Other reserves' amounted to negative €122 million (negative €44 million at December 31, 2017) and consisted of the following items:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Legal reserve	88	88
Investments carried at fair value	1	-
Cash flow hedge reserve	41	(40)
Available for sale financial instruments carried at fair value	(1)	(3)
Cumulative currency translation differences	(154)	(107)
Employee defined benefits reserve	(21)	(21)
Other	2	(39)
Total	**(44)**	**(122)**

Legal reserve

At December 31, 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 recovers 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 €40 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 December 31, 2018.
The cash flow hedge reserve is shown net of tax effects of €9 million (€10 million at December 31, 2017).

Available for sale financial instruments carried at fair value

The negative reserve of €3 million includes the fair value of financial instruments available for sale.

Cumulative currency translation differences

This reserve amounted to negative €107 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 has a negative balance for €21 million (it was negative for €21 million as of December 31, 2017), net of the fiscal effect of €6 million.
This reserve, in accordance with the provisions of IAS 19, receives the actuarial profits and losses relative to the employees defined benefit plans. These remeasurements are not allocated to the income statement.

Other

The negative item for €39 million (positive for €2 million as of December 31, 2017) consists for €2 million of the revaluation reserve comprised of the positive revaluation balance following the application of Law No. 413 dated December 30, 1991, Article 26 (in case of distribution, 5% of the reserve contributes to form the taxable income of the Company and is subject to a taxation of 24%); for a negative amount of €41 million by effect recognised to the reserve following the acquisition of the 40% interest of third parties relative to the company Saudi Arabian Saipem Ltd.

37 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 long-term incentive 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 December 31, 2017	14,943,059	6.446	96	1.48
Purchases for 2018	-			
Allocation	(186,724)			
Treasury shares held at December 31, 2018	**14,756,335**	**6.446**	**95**	**1.46**

As at December 31, 2018, the share capital amounted to €2,191,384,693. On the same day, the number of shares in circulations was 996,221,104.

Reconciliation of statutory net profit (loss) for the year and shareholders' equity to consolidated net profit (loss) for the year and shareholders' equity

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

38 Additional information

Supplement to cash flow statement

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Analysis of disposals of consolidated entities and businesses branches		
Current assets	47	-
Non-current assets	3	-
Net liquidity (net borrowings)	37	-
Current and non-current liabilities	(64)	-
Net effect of disposals	**23**	**-**
Fair value of interest after control has ceased	-	-
Gain (loss) on disposals	15	-
Non-controlling interests	-	-
Total sale price	**38**	**-**
less:		
Cash and cash equivalents	*(37)*	-
Cash flows from disposals	**1**	**-**

Disposals in 2017 concerned the sale of the business Traveaux Maritime.

39 Guarantees, commitments and risks

Guarantees

Guarantees amounted to €5,461 million (€5,525 million at December 31, 2017), and were as follows:

(€ million)	Dec. 31, 2017 Unsecured	Dec. 31, 2017 Other guarantees	Dec. 31, 2017 Total	Dec. 31, 2018 Unsecured	Dec. 31, 2018 Other guarantees	Dec. 31, 2018 Total
Joint ventures and associates	207	56	263	207	173	380
Consolidated companies	47	720	767	47	234	281
Own	-	4,495	4,495	-	4,800	4,800
Total	**254**	**5,271**	**5,525**	**254**	**5,207**	**5,461**

Other guarantees issued for consolidated companies amounted to €234 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 53 'Transactions with related parties'.
For details on amounts relating to completed projects in Algeria, see Note 57 'Additional information: Algeria'.

Commitments

Saipem SpA has provided commitments towards customers and/or other beneficiaries (financial and insurance institutions, export credit agencies) relating to the fulfilment of contractual obligations entered into by itself and/or by its subsidiaries or associated companies in the event of non-performance and payment of any damages arising from non-performance.
These commitments guarantee contracts whose overall value amounted to €46,040 million (€46,336 million at December 31, 2017), including both work already performed and the relevant portion of the backlog of orders at December 31, 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

For information on risk management, both financial and industrial, please refer to the analytical description in Note 3 'Summary of significant accounting policies' and in the paragraph 'Financial risk management' and the 'Risk management' section in the Director's Report.

Additional information on financial instruments

FINANCIAL INSTRUMENTS - CARRYING AMOUNTS AND EFFECT ON INCOME STATEMENT AND EQUITY

The carrying amounts and effect on income statement and equity of financial instruments were as follows:

(€ million)	Carrying amount	Income (expense) recorded in the income statement	Income (expense) recorded to other items of comprehensive income
Financial instruments held for trading			
Non-hedging derivatives [a]	(26)	(106)	-
Financial instruments measured at fair value			
Bonds	86	-	(1)
Financial assets being fixed assets			
Investments measured at fair value	-	-	(1)
Receivables and payables and other assets (liabilities) measured at amortised cost			
Trade and other receivables [b]	2,610	(11)	-
Financial receivables [c]	34	8	-
Trade and other payables [d]	2,674	(15)	-
Contract liabilities	1,205	-	-
Financial payables [e]	2,950	(93)	-
Net hedging derivative assets (liabilities) [f]	(54)	(6)	(100)

(a) The income statement effects relate only to the income (expense) indicated in Note 47 'Finance income (expense)'.
(b) The effects on the income statement were recognised in the 'Net reversals (impairments) of trade and other receivables' for €54 million of costs and in 'Finance income (expense)' for €43 million of income (relating to currency translations gains (losses) arising from adjustments to the year-end exchange rate).
(c) The income statement effects of €8 million were recognised in 'Finance income (expense)'.
(d) Income statement effects of €15 million relating to currency translation gains (losses) arising from adjustments to the year-end exchange rate were recognised in 'Finance income (expense)'.
(e) The income statement effects of €4 million arising from adjustments to the year-end exchange rate were recognised in 'Finance income (expense)' and of €89 million in finance income (expense) related to net borrowings.
(f) Income statement effects of €6 million were recognised in 'Net sales from operations' and in 'Purchases, services and other costs'.

NOTIONAL AMOUNTS OF DERIVATIVES

The notional amount of a derivative is an amount used as a reference to calculate the contractual payments to be exchanged. This amount may be expressed in terms of a monetary or physical quantity (e.g. barrels, tonnes, etc.). Monetary quantities in foreign currencies are converted into euros at the exchange rate prevailing at year end.
Notional amounts of derivatives do not represent the amounts actually exchanged between the parties and do not therefore constitute a measure of Saipem's credit risk exposure. This is instead represented by the fair value of derivative contracts at year end.

INTEREST RATE RISK MANAGEMENT

Saipem only enters into interest rate swaps, with the purpose of managing its interest rate risk.
The table below shows swaps entered into, weighted average interest rates and maturities. Average interest rates are based on year end rates and may be subject to changes that could have a significant impact on future cash flows. Comparisons between the average buying and selling rates are not indicative of the fair value of derivatives. In order to determine their fair value, the underlying transactions must be taken into account.

		Dec. 31, 2017	Dec. 31, 2018
Notional value	(€ million)	250	150
Weighted average rate received	(%)	(0.329)	(0.316)
Weighted average rate paid	(%)	0.01	0.129
Weighted average maturity	(years)	2	3

The underlying hedged transactions are expected to occur by December 2023.

EXCHANGE RATE RISK MANAGEMENT

Saipem enters into various types of forward foreign exchange contracts to manage its exchange rate risk. For contracts involving the exchange of two foreign currencies, both the amount received and the amount sold are indicated.

(€ million)	Notional amount at Dec. 31, 2017	Notional amount at Dec. 31, 2018
Forward foreign exchange contracts	1,746	2,209

The table below shows forward foreign exchange contracts and other instruments used to manage the exchange rate risk for the principal currencies.

	Notional amount at Dec. 31, 2017		Notional amount at Dec. 31, 2018	
(€ million)	Purchase	Sell	Purchase	Sell
AED	-	-	-	10
AUD	2	13	-	23
CAD	12	2	5	5
CHF	3	2	-	2
CLP	62	-	63	15
EUR	136	23	188	-
GBP	88	19	133	30
JPY	2	-	2	1
KWD	-	475	-	451
MXN	-	46	-	47
NOK	23	10	5	4
RON	-	-	2	3
RUB	5	4	1	7
SAR	119	360	90	737
SGD	388	71	146	20
THB	-	-	30	30
USD	1,049	2,610	661	2,150
Total	**1,889**	**3,635**	**1,326**	**3,535**

The table below shows the hedged future cash flows at December 31, 2018, by time period of occurrence and expressed in euro.

(€ million)	First quarter 2019	Second quarter 2019	Third quarter 2019	Fourth quarter 2019	2020 and beyond	Total
Revenues	1,018	673	581	326	422	**3,020**
Expenses	533	447	337	272	212	**1,801**

COMMODITY PRICE RISK

Saipem only enters into commodity contracts with the purpose of managing its commodity price risk exposure.
The following table shows hedged cash flows at December 31, 2018 by time period of occurrence:

(€ million)	First quarter 2019	Second quarter 2019	Third quarter 2019	Fourth quarter 2019	2020 and beyond	Total
Expenses	3	8	8	2	-	**21**

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 were 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 collaborated fully with the Prosecutor's Office and rapidly implemented decisive managerial and administrative restructuring measures, irrespective of any liability that might result in the course of the proceedings. 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, 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 concerning 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.

On September 19, 2018, the hearings dedicated to arguments by the defence and to the replies by the Public Prosecutor and the defence ended.
The first instance ruling of the Court of Milan: on September 19, 2018, the Court of Milan pronounced the first instance ruling. The Court of Milan also convicted, among others, some former managers of Saipem SpA for international corruption offences and also sentenced Saipem SpA to pay the pecuniary fine of €400,000, considering it to be allegedly responsible for offences pursuant to Legislative Decree No. 231/2001 with reference to the crime of international corruption.
The former managers of Saipem SpA who were convicted by the Court of Milan had all left the Company between 2008 and 2012. The Court also ordered the confiscation of, as alleged profit from the crime, the total sum of approximately €197 million from all the individuals who were convicted (and among them some of the former managers of the Company).
The Court also ordered the confiscation of, as alleged price from the crime, the total sum of approximately €197 million from Saipem pursuant to Article 19 of Legislative Decree No. 231/2001.
From what emerged during the proceedings and the requests of the Public Prosecutor, at present, a preventive seizure has already been in place in order to confiscate an amount totalling approximately €160 million from certain individuals – other than the Company – all convicted in the first instance ruling.
The first instance ruling of the Court is not enforceable. The reasons for the first instance ruling were filed by the Court of Milan on December 18, 2018.
The judgement before the Court of Appeal of Milan: on February 1, 2019, Saipem SpA challenged the first instance ruling before the Court of Appeal of Milan. Even the individuals convicted in the first instance have appealed the first instance ruling. The Public Prosecutor's Office of Milan also appealed the first instance ruling requesting, in a reversal of that ruling, that the conviction of Eni SpA, of the former CEO of Eni and of one of its managers '*be imposed by the Court of Appeal, as well as financial penalties and interdictory sanctions deemed lawful*'. The Public Prosecutor's Office of Milan has also requested a reversal of the contested

ruling to '*condemn the company Saipem to financial penalties and interdictory sanctions deemed lawful*'. On February 14, 2019, Saipem's lawyers lodged a defence brief in which they pleaded: (i) the inadmissibility of the appeal by the Public Prosecutor of the Court's decision not to consider interdictory sanctions applicable to Saipem SpA; and/or (ii) the inapplicability of the interdictory sanctions requested by the Public Prosecutor's Office against Saipem SpA.
The beginning of the second degree trial before the Court of Appeal of Milan is scheduled for 2019.
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 more than three years have passed since the deadline, 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 awarded 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 €71 million (amount calculated at the exchange rate as at December 31, 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 is suspended of the fine of approximately €34,000; and
- the unfreezing of the two banks accounts is suspended containing a total of about €71 million (amount calculated at the exchange rate obtaining at December 31, 2018). Sonatrach has not challenged the decision of the Court, consistently with its request, accepted by the Court, to be allowed to claim compensation subsequently in civil proceedings. This civil action was not initiated by Sonatrach.

The appeal before the Court of Cassation has not yet be scheduled.

In March 2013, the legal representative of Saipem Contracting Algérie was summoned to appear at the Court of Algiers, where he received verbal notification from the local investigating judge of the commencement of an investigation ('Sonatrach 2') underway 'into Saipem for charges pursuant to Articles 25a, 32 and 53 of Anti-Corruption Law No. 01/2006'. The investigating judge also requested documentation (Articles of Association) and other information concerning Saipem Contracting Algérie, Saipem and Saipem SA. After this summons, no further activities or requests followed so that, due to information gained from the local Algerian press and due to the time that has passed, it is believed that this investigation has long since been archived.

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 has cooperated 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.

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 associate also stated that the Saipem Group did not pay any bribes because Saipem's compliance system prevented this from happening. That statement was confirmed by the former Petrobras official charged in the same proceeding. The former associate of Saipem do Brasil and the former Petrobras official charged in the same proceeding, while offering a reconstruction of the facts which was partially different, 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 proceedings in Brazil against the former associate of Saipem do Brasil and another two defendants has not yet ended. During the proceedings against the former associate of Saipem do Brasil, no evidence of irregularities emerged in the management of tenders assigned by Petrobras to Saipem Group and/or evidence of illegal payments by Saipem Group in relation to tenders assigned by Petrobras to Saipem Group and/or evidence of damages suffered by Petrobras in relation to tenders assigned to Saipem Group. Saipem Group is not involved in this proceeding.

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 from the Brazilian judicial authorities.

Preliminary investigations in progress - Public Prosecutor's Office at the Court of Milan - Iraq
On August 2, 2018, the Public Prosecutor of the Court of Milan notified Saipem SpA of a request for documents relating to previous activities (2010-2014) of Saipem Group in Iraq and in particular to relations with the Unaoil group. The request also contains information that – with regard to these past activities – Saipem SpA is subject to investigations for international corruption. In January 2019, the US Department of Justice, which claimed to have an ongoing investigation into the activities and relations of Unaoil for some time and to be aware of a pending investigation in Italy against Saipem SpA by the Public Prosecutor's Office of Milan, asked Saipem if it would be willing to provide 'voluntary production' of documents relating to previous activities of Saipem Group in Iraq with the involvement of Unaoil and, more in general, the previous between Saipem and the Unaoil Group. Saipem has confirmed that it is willing to provide such 'voluntary production'. The 'voluntary production' that is in progress is without prejudice to any question concerning possible US jurisdiction, an aspect for which the US Department of Justice has not indicated at the moment any supporting evidence, asking only for Saipem to cooperate in the assessments that the US Department of Justice has under way.

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.
On July 17, 2018, the Court of Appeal of Milan file the second degree ruling essentially leaving the decision-making apparatus of the contested sentence unchanged, thus confirming the decisions of the Milan Court of Appeal of October 24, 2013, also in relation to the plaintiffs. The Court of Appeal of Milan has reversed the decision of the sentence under appeal limited to only two legal persons for whom liability has been excluded and to one natural person for whom the offence was extinguished.
Some parts of the trial were appealed to the Court of Cassation.
Saipem, as the plaintiff in previous judgements, is waiting to receive notification of the hearing date.

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 relinquished such costs back to an 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 partecipation STS) be jointly and severally condemned to pay the mise en régie costs as quantified above beyond 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, with which it has made the counter-claim that Fosmax be ordered to pay €2,155,239 in addition to interest for loss of profit and €5,000,000 for non-material damage.
The award is expected at the end of 2019.

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

On December 23, 2013, Saipem filed a request for arbitration with the International Chamber of Commerce in Paris ('Paris ICC') with reference to the contract entered into on March 22, 2009 by Saipem SpA and Saipem Contracting Algérie SpA (collectively, 'Saipem') on the one hand, and Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures SpA ('Sonatrach') and First Calgary Petroleums LP (the latter, 'FCP' and both collectively, the 'Client') on the other hand, for the engineering, procurement and construction of a natural gas gathering and treatment plant and related export pipelines in the MLE field in Algeria. The request was notified to the Client on January 8, 2014. In its request for arbitration, as subsequently amended in the Statement of Claim on December 17, 2014 and the subsequent brief of January 15, 2016, Saipem requested that the Arbitration Tribunal grant: (i) an extension of the contractual terms by about 30.5 months; (ii) the right of Saipem to obtain payment of the equivalent of about €895 million (gross of the amount of €246 million already paid by FCP on a without prejudice basis by way of advance payment on variation order requests - VORs), by way of increase of the contractual price because of an extension of time, VORs, non payment of late invoices and spare parts and acceleration bonuses. Both Sonatrach and FCP (this latter wholly owned by the Eni Group since 2008) have appointed their arbitrator and, on March 28, 2014, filed their respective Answers to the Request for Arbitration. Sonatrach and FCP lodged their own Statements of defence (Mémoires en défense) on August 14, 2015, also introducing counterclaims, which 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. 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, ruled on eligibility ('an debeatur') of the reciprocal claims without proceeding to the relevant quantification, deferring on this point to the possibility of an agreement by the parties or to a possible subsequent final award the definition of the relative quantification ('quantum debeatur') of the allowed claims.
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*'.
Following the signing of the agreement between Sonatrach and Saipem, the MLE arbitration remained pending only between Saipem and FCP, even though the two companies had agreed to suspend it until August 1, 2018, the date on which Saipem and FCP signed a settlement agreement in which the amounts of their reciprocal claims were defined as admitted under the partial award. The dispute is therefore closed.

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

Preliminary hearings in Milan: 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 person under investigation 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 were also 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 October 16, 2018, the trial began before the Judge for the Preliminary Hearing in Milan during which two natural persons were presented as plaintiffs.
At the hearing of January 8, 2019, the Judge for the Preliminary Hearing granted the establishment of a civil suit against the accused natural persons and rejected the second request for the constitution of a civil suit against all the defendants. No civil suit has been granted against Saipem SpA.
Following the discussions of the parties and the Public Prosecutor, the Judge for the Preliminary Hearing postponed the case to March 1, 2019.
At the hearing of March 1, 2019, the Judge for the Preliminary Hearing ordered the committal for trial of Saipem SpA with reference to the charge of an administrative offence pursuant to Articles 5, 6, 7, 8, 25-*ter*, letter b) and 25-*sexies* of Legislative Decree No. 231/2001, allegedly committed until April 30, 2013 *'for failing to provide a suitable organisational model to prevent criminal acts'* with regard to the following alleged crimes: (i) offence pursuant to Article 2622 of the Civil Code ('false accounting'), allegedly committed on April 30, 2013, with reference to the 2012 consolidated and individual financial statements of Saipem SpA; and (ii) offence pursuant to Article 185 of Legislative Decree No. 58/1998 ('manipulation of the market'), 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 individual financial statements of Saipem SpA.
The Judge for the Preliminary Hearing ruled in favour of Saipem SpA, because the statute of limitations had passed regarding the charge of an administrative offence pursuant to Articles 5, 6, 7, 8, 25-*ter*, letter b) and 25-*sexies* of Legislative Decree No. 231/2001, *'for failing to provide a suitable organisational model to prevent criminal acts'* with regard to the following alleged

crime: (iii) offence pursuant to Article 185 of Legislative Decree No. 58/1998 ('manipulation of the market'), 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.
The Judge for the Preliminary Hearing ordered the committal for trial of the following individuals: (a) for the alleged crimes under (i) and (ii): 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 individual financial statements of Saipem SpA; (b) for the alleged crime under (iii): the Chief Executive Officer 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.
All individuals committed for trial by the Judge of the Preliminary Hearing of Milan have long since left the Company.
On May 23, 2019, the first instance proceedings will begin before the Criminal Court of Milan.
On July 28, 2014, Saipem SpA lodged an appeal at the Court of Appeal of Milan against the above mentioned Consob Resolution No. 18949 dated June 18, 2014 to impose a monetary fine. By decree filed on December 11, 2014, the Court of Appeal of Milan rejected the opposition made by Saipem SpA which then appealed to the Court of Cassation against the Decree issued by the Court of Appeal of Milan. The appeal was discussed on November 7, 2017. On February 14, 2018, the Court of Cassation filed its decision rejecting Saipem's petition on the grounds of the '*absolute uniqueness of the situation... concerning the interpretation of the phrase 'without delay' in the text of the paragraph 1 of Article 114 TUF*' and condemning each party to bear its legal costs for the proceedings.
Current legal proceedings: 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, case number R.G. 28789/2015, fully disputing the adverse party's requests, challenging their admissibility and, in any case, their lack of grounds.
As per the order made by the Judge at the hearing of May 31, 2017, the parties proceeded to deposit the briefs referred to in Article 183, paragraph 6, c.p.c. (Civil Procedure Code). With the same order, the Court set a hearing for February 1, 2018 for the possible admission of the evidence.
With the same order of May 31, 2017, the Court ordered the separation of the judgement for five of the parties involved in the proceedings and this separate proceeding – number R.G. 28177/2017 – was discontinued pursuant to Article 181 of the Italian Civil Procedure Code on November 7, 2017.
At the hearing on February 1, 2018, the Judge, by order dated February 2, 2018, postponed the proceeding to the hearing of July 19, 2018. pursuant to Article 187, paragraph 2, c.p.c. During the hearing, after the parties clarified the conclusions, the judge assigned said parties the deadline for filing the final briefs and the replies.
On October 2, 2018, Saipem filed the final brief and on October 22, 2018 Saipem filed the reply.
On November 9, 2018, the Court filed the first instance ruling No. 11357, rejecting the merit of the request by the parties. The Court has indeed ruled that there is lack of evidence of ownership of Saipem shares by said actors in the period indicated above and has condemned them to pay €100,000 in favour of Saipem, by way of reimbursement of legal expenses.
On December 31, 2018, institutional investors challenged the aforementioned sentence before the Court of Appeal of Milan, requesting that Saipem be ordered to pay approximately €169 million. The first hearing is scheduled for May 22, 2019.
With a writ of summons dated December 4, 2017, twentyseven corporate investors took legal action before the Court of Milan – section specialised in the field of corporate law, against Saipem SpA. and two former Chief Executive Officers of said company, requesting that they are jointly condemned to pay compensation (with respect to the two former members of the company, limited to their periods of stay in office) for compensation for damages, material and non-material, allegedly suffered due to an alleged manipulation of information returned to the market during the period between January 2007 and June 2013.
Saipem SpA's liability was calculated pursuant to Article 1218 of the Civil Code (contractual liability) or pursuant to Article 2043 of the Civil Code (non-contractual liability) or, pursuant to Article 2049 of the Civil Code (owner and client liability) for the illegal conduct committed by the two former company representatives.
Damages were not quantified by the investors, who reserved the right to quantify damages during the trial.
The Company appeared in court to contest the claims in full, pleading inadmissibility and in any case the groundlessness in fact and in law.
On June 5, 2018, the first hearing was held. In this hearing the judge assigned terms for evidence pleadings, reserving judgement until said pleadings could be examined.
The parties proceeded to deposit the pleadings referred to in Article 183, paragraph 6, c.p.c. In the evidence pleading pursuant to Article 183, paragraph 6, No. 1, c.p.c., the plaintiffs provided for the quantification of damages allegedly suffered in the amount of approximately €139 million. In its evidence pleading, Saipem and the other defendants remarked, in particular, on the lack of evidence regarding the acquisition of Saipem shares on the secondary markets by the plaintiffs. Therefore, due to this lack of evidence from the plaintiffs, all the defendants asked the Court to set a hearing to clarify the conclusions pursuant to Article 187 c.p.c.
On November 9, 2018, the Company filed sentence No. 11357 issued by the Court of Milan on November 9, 2018 at the outcome of case R.G. No. 28789/2015, as this provision decided the same preliminary issues of merit raised by Saipem and the other defendants in the case under consideration, in particular with reference to the failed proof of purchase of Saipem shares.
The Court has not yet issued a decision.

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; (vii) on July 3, 2018 from a private investor for about €330 thousand; (viii) on October 25, 2018 for about €8,800 from a private investor; (ix) on November 2 for about €48,000 from a private investor.
Those applications where mediation has been attempted, but with no positive 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; (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); (e) from a private investor in April 2017 for approximately €40,000; (f) in 2018-2019 by a private investor for approximately €48,000.
Saipem SpA verified the aforementioned requests for out-of-court claims and mediation and found them to be groundlessness and denying all liability. At the date of approval of the Annual Report 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 and the Court of Appeal of Milan and another case with a value of €3 million in which Saipem was summoned in the course of 2018 by the defendant in court.

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 on April 30, 2018, Husky asked: (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 last hearings were held in August 2018. The Arbitral Tribunal informed the parties that the award will probably be issued during the month of May 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 €541.6 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 €75.9 million, for payments made by SSTBV to a significantly higher level than contractually due; and (ii) approximately €48.6 million, for liquidated damages motivated by alleged delays; and
- mainly and alternatively, damages for approximately €5.2 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.
On December 21, 2018, SSTBV deposited its own Rejoinder. The discussion hearings before the arbitration panel have been set for June 2019.
At the end of February 2019, Saipem and South Stream Transport BV have expressed the common intention to negotiate – on a without prejudice basis – an amicable settlement of the arbitration in progress since November 2015. The negotiations are ongoing. The 2018 result includes the effect of the hypothetical settlement being negotiated between the parties regarding the South Stream project.

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.

On April 28, 2017, Saipem filed its Statement of Claim and on October 16, 2017 Kharafi filed its Statement of Defence and Counterclaim. 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.
On November 14, 2018, the parties filed their expert reports. At that time, Kharafi produced a report prepared by an external consulting company in which, for the first time, he claims that the company would have suffered damages for equal to approximately €1.3 billion, allegedly attributable to Saipem related to the failure of the Jurassic and BS171 projects (in which Kharafi was a subcontractor of Saipem). Subsequently, Saipem filed an appeal with the Arbitral Tribunal requesting that the expert report in question, as well as the related request, be thrown out as late and without foundation.
On February 5, 2019, the Arbitral Tribunal pronounced that the report in question was inadmissible and, with it, the new claim for compensation brought by Kharafi for the equivalent of €1.3 billion.
With the last filing the parties specified their demands, based on the final quantifications performed by the experts, indicating as follows: (i) Saipem, KWD 46,069,056.89; and (ii) Kharafi, KWD 162,101,263.
It should be noted that recently Saipem has learned that Kharafi was declared bankrupt by the Kuwaiti courts on November 29, 2018.
The award is expected to be issued by the end of 2019.

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 a request 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 AUD 37,820,023 for payments related to the consortium agreement, extra costs related to non-compliance and delays by CPB in the execution of the works and backcharges. 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.

Consob Resolution of February 21, 2019

With reference to Consob Resolution No. 20828 of February 21, 2019, communicated to Saipem on March 12, 2019 ('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 April 2, 2019 to appeal the Resolution before the Court of Appeals of Milan.

Ongoing investigations. Public Prosecutor's Office of Milan - 2015 and 2016 Financial Statements. Prospectus of the January 2016 capital increase

On January 22, 2019, the Public Prosecutor's Office of Milan notified Saipem SpA of a *'local search warrant and seize notice of investigation'*, in relation to the alleged administrative offence pursuant to Articles 5, 6, 7, 8 and 25-*ter* - lett. B), Legislative Decree No. 231/2001, based on the alleged crime of false accounting allegedly committed from April 2016 to April 2017, as well as in

relation to the alleged unlawful administrative act pursuant to Articles 5, 6, 7, 8 and 25-*sexies* of Legislative Decree No. 231/2001, based on the alleged crime of manipulation of the market, allegedly committed from October 27, 2015 to April 2017.
At the same time, the Public Prosecutor's Office of Milan notified the Chief Executive Officer of the Company, as well as, for various reasons, two of its managers (including the current Manager responsible for the preparation of financial reports appointed on June 7, 2016) and a former manager of an investigation concerning the following offences: (i) false accounting relating to the 2015 and 2016 financial statements; (ii) manipulation of the market allegedly committed from October 27, 2015 to April 2017; and (iii) false statements in the Prospectus issued with reference to the documentation for the offer of the capital increase in January 2016.
Preliminary investigations are currently under way.

REVENUES

The following is a summary of the main components of revenues. For more information about changes in operating expenses, see the 'Financial and economic results' section of the 'Directors' Report'.

40 Net sales from operations

Net sales from operations were as follows:

(€ million)	2017	2018
Revenues from sales and E&C services	7,896	7,560
Revenues from sales and Drilling services	1,103	966
Total	**8,999**	**8,526**

Net sales by geographical area were as follows:

(€ million)	2017	2018
Italy	428	354
Rest of Europe	415	467
CIS	1,053	752
Middle East	3,063	2,893
Far East	579	501
North Africa	1,143	1,088
Sub-Saharan Africa	1,842	1,952
Americas	476	519
Total	**8,999**	**8,526**

As described in the 'Accounting policies' in the paragraph 'Contract assets and contract liabilities', to which we refer, in consideration of the nature of the contracts and the type of works performed by Saipem, the individual obligations contractually identified are mainly satisfied over time. The revenues that measure the progress of the work are determined, in line with the provisions of IFRS 15, by using an input method based on the percentage of costs incurred with respect to the total contractually estimated costs ('cost-to-cost' method).
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 December 31, 2018, totalled €120 million, of which 79% 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.
The contractual obligations to be fulfilled by the Saipem Group (backlog of orders), which at December 31, 2018 amounted to €12,619 million, are expected to generate revenues of €6,506 million in 2019 while the remainder will be realised in subsequent years.
Revenues from related parties are shown in Note 53 'Transactions with related parties'.

41 Other income and revenues

Other income and revenues were as follows:

(€ million)	2017	2018
Gains on disposal of assets	6	1
Gain on disposal of a business unit	15	-
Indemnities	2	1
Contract penalties	3	-
Other income	13	10
Total	**39**	**12**

OPERATING EXPENSE

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

42 Purchases, services and other costs

Purchases, services and other costs included the following:

(€ million)	2017	2018
Production costs - raw, ancillary and consumable materials and goods	2,298	1,780
Production costs - services	3,225	3,614
Operating leases and other	730	626
Net provisions for contingencies	13	29
Other expenses	219	45
less:		
- capitalised direct costs associated with self-constructed assets	(9)	(5)
- changes in inventories of raw, ancillary and consumable materials and goods	58	21
Total	**6,534**	**6,110**

Costs for services included agency fees of €431 thousand (€1 million at December 31, 2017).
Costs for research and development that do not meet the requirements for capitalisation amounted to €32 million (€31 million in 2017).
'Operating leases and other' included operating lease payments of €614 million (€717 million in 2017), mainly for bunkers, buildings, work and construction equipment.
Future minimum lease payments expected to be paid under non-cancellable operating leases amounted to €584 million (€617 million in 2017), of which €130 million was due within one year, €349 million between 2-5 years and €105 million due after 5 years.
Net provisions for contingencies are detailed in Note 26 'Provisions for contingencies'.
Purchases, services and other costs to related parties are shown in Note 53 'Transactions with related parties'.

43 Net reversals (impairments) of trade and other receivables

Net reversals (impairments) of trade and other receivables also include the effects relative to IFRS 9 applied to contract assets and are broken down as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Trade receivables	1	(54)
Other receivables	(25)	-
Contract assets	-	(3)
Total	**(24)**	**(57)**

44 Payroll and related costs

Payroll and related costs were as follows:

(€ million)	2017	2018
Wages and salaries	1,314	1,270
Social security contributions	207	194
Contributions to defined benefit plans	38	44
Accrual to provision for TFR recognised as a contra-entry to pension or Inps funds	22	22
Voluntary redundancy incentives	25	(18)
Other costs	16	16
less:		
- capitalised direct costs associated with self-constructed assets	(4)	(6)
Total	**1,618**	**1,522**

Net accruals to provisions for employee benefits are shown under Note 27 'Provisions for employee benefits'.
Charges for voluntary redundancy incentives refers only to net deductions/additions for the provision for redundancy incentives as commented on Note 26 'Provisions for contingencies'.

Long-term stock-based incentive plans for Saipem Senior Managers

In order to create a system of incentives and loyalty among Group's Senior Managers, Saipem SpA, defined a long-term incentive plan starting from 2016, through the free allocation of Saipem SpA ordinary shares which was implemented in quarterly cycles.
The 2016-2018 incentive plan, approved by the Ordinary Shareholders' Meeting on April 29, 2016, provides for the free allocation of Saipem ordinary shares to the Senior Managers of Saipem SpA and its subsidiaries, who are holders of organisational positions with an appreciable impact on the achievement of business results and also in relation to their performance and skills.
The plan requires that the performance conditions be measured on the basis of the following parameters: (i) a market objective, identified in the Total Shareholder Return (TSR) of the Saipem share, with a weight of 50%, compared to that of a basket of competing companies during the performance period; (ii) an economic-financial objective, with a weight of 50%, represented for both the implemented measures, by Saipem's Net Financial Position (NFP) at the end of the three-year period of reference.
For each of the performance objectives illustrated above, 3 levels of results have been established: (i) upon achieving the maximum result level, the number of matured shares will be 100% of the shares allocated; (ii) upon achieving the threshold result level, the number of matured shares will be 50% of the shares allocated for the TSR and 30% for the NFP; (iii) for results that fall below the threshold no shares will be allocated.
The performance conditions operate independently of each other.
Rights can be exercised in advance, but in a limited way, in the event of termination of the employment contract by mutual consent or loss of control by Saipem of the company where the beneficiary of the plan is employed (Article 4.8 of the plan's regulations).
If the employment contract is terminated unilaterally during the vesting period, the incentive will not be paid out.
The cost is determined with reference to the fair value of the option assigned to the senior manager, while the portion for the year is determined pro-rata temporis throughout the period to which the incentive refers (the vesting period and the co-investment period).
The fair value of the long-term incentive plans for the year, referring to both completed allocations, amounted to €14 million.
The measurement was carried out using the Stochastic and Black & Scholes models, according to the provisions established by the international accounting standards, in particular by IFRS 2.
The Stochastic model was used in order to assess the equity-settled share-based payment subject to market related performance conditions (TSR), with a weight of 50%.
The Black & Scholes model was used to assess the economic-financial objective, with a weight of 50%.
For allocation in 2018 the total weighted average unit fair value is equal to €3.859 (€3.065 for 2017 and €3.111 for 2016).
At the end of the vesting period the plan requires that the strategic resources invest 25% of the matured shares for a further two years (co-investment period), at the end of which the beneficiaries will receive an addition free share for every share invested, the weighted average unit fair value is differentiated by allocation type as follows:

(€)	Weighted average fair value (Implementation for 2017)	Weighted average fair value (Implementation for 2018)
Strategic Senior Managers	3.353	4.271
Non-Strategic Senior Managers	2.665	3.419
Chief Executive Officer-CEO [a]	2.665	2.670 3.419
Total	**3.065**	**3.859**

(a) In 2018, the Board of Directors of Saipem SpA, approved two different assignments for the CEO (dated March 5, 2018 and July 24, 2018, respectively). The fair value, since it is measured at the time of assignment, is different between the assignment of March 5, 2018 (€2.670), and that of July 24, 2018 (€3.419).

The co-investment provision does not apply to the Chief Executive Officer-CEO, for which a two-year lock-up on 25% of the shares matured is envisaged, in which the shares may not be transferred and/or sold.
At the date of assignment, the classification and the number of beneficiaries, the respective number of shares allocated and the subsequent fair value calculation are analysed as follows.

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 2017 [a]	Fair value 2018 [a]
Strategic senior managers (vesting period)	100	3,926,500	75	1.91	3.42	2.665	13,163,589	1,611,503	3,329,787
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	940,904	2,093,435
Chief Executive Officer-CEO	1	397,500	100	1.91	3.42	3.353	1,059,338	154,648	352,790
Total	**345**	**6,742,400**				**3.0653**	**20,667,963**	**2,707,055**	**5,776,012**

(a) The fair value for the year is shown net of the rights expired/allocated as of the date of observation.

Implementation for 2018

	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 2017 [a]	Fair value 2018 [a]
Strategic senior managers (vesting period)	98	3,559,900	75	2.73	4.11	4.271	15,205,280	-	1,771,058
Strategic senior managers (co-investment period)			25	5.44	8.22				
Non-strategic senior managers	263	2,357,000	100	2.73	4.11	3.419	8,057,871	-	1,176,320
Chief Executive Officer-CEO (March 2018)	1	205,820	100	2.06	3.28	2.670	549,590	-	150,937
Chief Executive Officer-CEO (July 2018)	1	413,610	100	2.73	4.11	3.419	1,414,099	-	206,425
Total	**363**	**6,536,330**				**3.859**	**25,226,750**	**-**	**3,304,740**

(a) The fair value for the year is shown net of the rights expired/allocated as of the date of observation.

The evolution of the share plan is as follows:

	2017			2018		
	Number of shares	Average strike price [a] (€ thousand)	Market price [b] (€ thousand)	Number of shares	Average strike price [a] (€ thousand)	Market price [b] (€ thousand)
Options outstanding as of January 1	**6,095,214**	**-**	**32,914**	**12,637,514**	**-**	**48,149**
New options granted	6,742,400	-	23,059	6,536,330	-	26,864
(Options exercised during the period - consensual termination) [c]	(4,275)	-	(14)	(186,724)	-	(743)
(Options expiring during the period)	(195,825)	-	(745)	(890,003)	-	(3,859)
Options outstanding as of December 31	**12,637,514**	**-**	**48,149**	**18,097,117**	**-**	**59,087**
Of which:						
- exercisable at December 31	-			-		
- exercisable at the end of the vesting period	10,638,973			15,636,645		
- exercisable at the end of the co-investment period	1,998,541			2,460,472		

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

The following table shows stock options outstanding as of December 31, 2018 and the number of assignees:

Year	No. of managers	Strike price [(a)]	No. of shares
2016	372	-	6,103,514
2017	345	-	6,742,400
2018	363	-	6,536,330
			19,382,244
To December 31, 2018			
Shares assigned [(b)]			
2016	(14)	-	(148,529)
2017	(5)	-	(42,470)
2018	-	-	-
			(190,999)
Expired stock options [(b)]			
2016	(28)	-	(527,598)
2017	(10)	-	(387,130)
2018	(2)	-	(179,400)
			(1,094,128)
Stock options			
2016	344	-	5,427,387
2017	335	-	6,312,800
2018	361	-	6,356,930
			18,097,117

(a) Since these are stock grants, the strike price is zero.
(b) The number of managers indicated among the expired options, also includes 19 managers already detailed in correspondence with the options allocated. The latter, in fact, referring to consensual termination, whose beneficiaries received a reduced number of shares (Article 4.8 of the plan regulations), imply the forfeiture of residual unallocated options.

The long-term incentive plans for Saipem SpA employees are shown in the item 'Payroll and related costs' and as a counter-item to 'Other reserves' of shareholders' equity.
The fair value of options for employees of subsidiaries is shown at the date of option grant in the item 'Payroll and related 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 'Payroll and related costs'.
In the presence of Saipem SpA personnel who provides service to other Group companies, the cost is charged pro-rata temporis to the company where the beneficiaries are in service.
The following parameters were used to calculate fair value:

		2017	Implementation	2018 [(a)]
Share price [(b)]	(€)	**3.42**	05/03/2018 24/07/2018	**3.28** **4.11**
Strike price [(c)]	(€)	**-**		**-**
Strike prices used in the Black & Scholes model	(€)	**3.42**	05/03/2018 24/07/2018	**3.28** **4.11**
Expected life				
Vesting period		3		3
Co-investment		2		2
Risk-free interest rate				
TSR	(%)	-		-
- vesting period	(%)	0.200	05/03/2018 24/07/2018	0.110 1.050
- co-investment	(%)	0.780	24/07/2018	1.730
Black & Scholes	(%)	n.a.		n.a.
Expected dividends	(%)	**-**		**-**
Expected volatility				
TSR	(%)	-		-
- vesting period	(%)	58.15	05/03/2018 24/07/2018	54.79 51.49
- co-investment	(%)	55.02	24/07/2018	49.19
Black & Scholes	(%)	n.a.		n.a.

(a) In 2018, the Board of Directors of Saipem SpA, in addition to approving the implementation for 2018 for executives of the Saipem Group (on July 24, 2018), also approved for the benefit of the Chief Executive Officer-CEO, two different assignments referring to the same implementation of the share-based plan for 2016-2018 (dated respectively March 5, 2018 and July 24, 2018). The parameters used to calculate the fair value, since they were observed as of the date of assignment, differ between the two dates.
(b) Corresponding to the closing price of Saipem SpA shares on the grant date, recorded on the Electronic Stock Market managed by Borsa Italiana.
(c) Since these are stock grants, the strike price is zero.

Remuneration of Senior Managers with strategic responsibilities

To ensure consistency between disclosures provided in the Remuneration Report and the Annual Report, the definition of Senior Managers with strategic responsibilities is aligned to pursuant to Article 65, paragraph 1-*quater* of the Issuer Regulations. This definition refers to persons with direct or indirect planning, coordination and control powers and responsibilities. The table below shows remuneration of Senior Managers with strategic responsibilities of Saipem, defined as Senior Managers (other than Directors and Statutory Auditors) serving on the Executive Committee, as well as all direct reports of the CEO.

(€ million)	2017	2018
Wages and salaries	6	6
Employee termination indemnities	-	-
Other long-term benefits	-	-
Fair value long-term incentive plans	1	2
Total	**7**	**8**

Compensation of Statutory Auditors

Remuneration of Statutory Auditors amounted to €170 thousand in 2018.
Compensation included emoluments and all other retributive and social security compensations due for the function of Director or Statutory Auditor of Saipem SpA or companies within the scope of consolidation that represented a cost to the Parent Company.

Average number of employees

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

(number)	Dec. 31, 2017	Dec. 31, 2018
Senior managers	385	384
Junior managers	4,038	3,986
White collars	15,430	14,957
Blue collars	13,804	12,201
Seamen	279	266
Total	**33,936**	**31,794**

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

45 Depreciation, amortisation and impairment

Depreciation, amortisation and impairment are detailed below:

(€ million)	2017	2018
Depreciation and amortisation:		
- tangible assets	495	455
- intangible assets	10	9
Total depreciation and amortisation	**505**	**464**
Impairment:		
- tangible assets	231	287
- intangible assets	-	60
Total impairment	**231**	**347**
Total	**736**	**811**

The write down of assets resulting mainly from the impairment tests are described as follows:
- in the Drilling Division, some of the rigs and vessels were partially written down mainly following the impairment test. Impact of €262 million;
- in Onshore E&C an FPSO was partially written down after the impairment test. Impact of €13 million;
- in the Onshore E&C Division the goodwill was written down following the impairment test. Impact of €60 million.

For further details, see also the ‘Financial and economic results’ section of the ‘Directors’ Report’.

46 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 December 31, 2018, these amounted to expenses of €1 million.

47 Finance income (expense)

Finance income (expense) was as follows:

(€ million)	2017	2018
Finance income (expense)		
Finance income	309	209
Finance expense	(617)	(268)
Total	**(308)**	**(59)**
Derivative financial instruments	85	(106)
Total	**(223)**	**(165)**

Net finance income and expense was as follows:

(€ million)	2017	2018
Exchange gains (losses)	**(208)**	**33**
Exchange gains	300	200
Exchange losses	(508)	(167)
Finance income (expense) related to net borrowings	**(94)**	**(89)**
Interest from banks and other financial institutions	8	6
Interest and other expense due to banks and other financial institutions	(102)	(95)
Other finance income (expense)	**(6)**	**(3)**
Other finance income from third parties	1	3
Other finance expense	(4)	(3)
Finance income (expense) on defined benefit plans	(3)	(3)
Total finance income (expense)	**(308)**	**(59)**

Gains (losses) on derivatives consisted of the following:

(€ million)	2017	2018
Exchange rate derivatives	86	(106)
Interest rate derivatives	(1)	-
Total	**85**	**(106)**

Net expenses from derivatives of €106 million (income of €85 million in 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 changes in the value of the forward component of derivatives that qualify for hedge accounting.
Finance income (expense) with related parties are shown in Note 53 'Transactions with related parties'.

48 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)	2017	2018
Share of profit of investments accounted for using the equity method	8	13
Share of loss of investments accounted for using the equity method	(16)	(57)
Net additions to (deductions from) the provisions for losses related to investments accounted for using the equity method	(1)	(43)
Total	**(9)**	**(87)**

The share of profits (losses) of investments accounted for using the equity method is commented on Note 17 'Investments'.

Other income (expense) from investments

A net cost of €1 million was registered during the year in relation to the sale of liquidated joint venture enterprises.

49 Income taxes

Income taxes consisted of the following:

(€ million)	2017	2018
Current taxes:		
- Italian subsidiaries	115	15
- foreign subsidiaries	162	157
Net deferred taxes:		
- Italian subsidiaries	2	15
- foreign subsidiaries	(78)	7
Total	**201**	**194**

The difference between statutory taxes, calculated by applying a 24% tax rate (Ires) to profit before income taxes as provided for by Italian laws, and effective taxes for the years ended December 31, 2018 and 2017 was due to the following factors:

(€ million)	2017	2018
Result before income taxes	**(106)**	**(216)**
Statutory tax rate	**(26)**	**(52)**
Items increasing (decreasing) statutory tax rate:		
- different foreign subsidiaries tax rate	(40)	(2)
- permanent differences and other factors	149	109
- effect of Italian regional production tax (Irap) on Italian companies	3	1
- additions to (deductions from) tax provision	5	(2)
- Ires related to previous years	76	5
- unrecognised deferred tax assets	19	93
- write-down of deferred tax assets and current tax assets	15	42
Total changes	**227**	**246**
Effective taxes	**201**	**194**

(€ million)	2017	2018
Income taxes recognised in consolidated income statement	201	194
Income tax related to items of other comprehensive income that may be reclassified to profit or loss	(73)	18
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	(1)	-
Tax on total comprehensive income	**127**	**212**

50 Non-controlling interests

Profit attributable to non-controlling interests amounted to €62 million (€21 million in 2017).

51 Earnings (losses) per share

Basic earnings (losses) per ordinary share are calculated by dividing net profit (loss) for the year attributable to Saipem's shareholders by the weighted average of ordinary shares issued and outstanding during the year, excluding treasury shares.
The weighted average number of outstanding shares adjusted for the calculation of the basic earnings per share was 996,142,267 and 1,000,503,419 in 2018 and 2017, respectively.
Diluted earnings per share are calculated by dividing net profit (loss) for the year by the weighted average of fully-diluted Saipem SpA shares issued and outstanding during the year, with the exception of treasury shares and including the number of shares that could potentially be issued.
The number of shares outstanding used for the calculation of the diluted earnings (losses) per share was 1,014,249,982 and 1,013,151,531 in 2018 and 2017, respectively.
Reconciliation of the average number of shares used for the calculation of basic and diluted earnings per share is as follows:

		Dec. 31, 2017	Dec. 31, 2018
Weighted average number of shares used for the calculation of the basic earnings (losses) per share		**1,000,503,419**	**996,142,267**
Number of potential shares following long-term incentive plans		12,637,514	18,097,117
Number of savings shares convertible into ordinary shares		10,598	10,598
Weighted average number of outstanding shares for diluted earnings (losses) per share		**1,013,151,531**	**1,014,249,982**
Earnings (losses) attributable to Saipem	(€ million)	(328)	(472)
Basic earnings (losses) per share	(€ per share)	(0.33)	(0.47)
Diluted earnings (losses) per share	(€ per share)	(0.32)	(0.46)

52 Segment and geographical information

Segment information

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Floaters	Unallocated	Total
December 31, 2017							
Net sales from operations	4,926	3,697	1,037	598	1,143	-	11,401
less: intra-group sales	1,234	167	424	108	469	-	2,402
Net sales to customers	**3,692**	**3,530**	**613**	**490**	**674**	**-**	**8,999**
Operating result	334	(77)	63	(125)	(69)	-	126
Depreciation, amortisation and impairment	196	30	244	199	67	-	736
Net income (expense) from investments	3	(12)	-	-	-	-	(9)
Capital expenditure	114	8	78	62	-	-	262
Tangible and intangible assets	2,588	421	1,555	643	127	-	5,334
Investments [(a)]	116	19	-	6	-	-	141
Current assets	1,398	2,341	275	233	238	2,258	6,743
Current liabilities	1,510	1,835	76	111	528	427	4,487
Provisions for contingencies [(a)]	82	140	2	9	36	71	340
December 31, 2018							
Net sales from operations	5,214	3,086	828	599	1,265	-	10,992
less: intra-group sales	1,362	143	363	98	500	-	2,466
Net sales to customers	**3,852**	**2,943**	**465**	**501**	**765**	**-**	**8,526**
Operating result	305	(228)	(149)	6	103	-	37
Depreciation, amortisation and impairment	205	91	368	125	22	-	811
Net income (expense) from investments	(1)	(87)	-	-	-	-	(88)
Capital expenditure	345	22	66	46	6	-	485
Tangible and intangible assets	2,682	406	1,256	579	105	-	5,028
Investments [(a)]	113	(37)	-	2	-	-	78
Current assets	1,797	1,672	261	205	164	2,112	6,211
Current liabilities	1,428	2,021	104	154	264	459	4,430
Provisions for contingencies [(a)]	94	140	2	10	19	65	330

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

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 40 'Net sales from operations'.

(€ million)	Italy	Rest of Europe	CIS	Rest of Asia	North Africa	Sub-Saharan Africa	Americas	Unallocated	Total
2017									
Capital expenditure	17	6	12	46	-	2	12	167	262
Tangible and intangible assets	104	26	111	612	1	45	282	4,153	5,334
Identifiable assets (current)	1,463	473	446	2,049	475	720	476	641	6,743
2018									
Capital expenditure	27	5	7	36	-	3	12	395	485
Tangible and intangible assets	98	31	71	596	1	43	247	3,941	5,028
Identifiable assets (current)	1,255	539	96	1,619	486	529	1,183	504	6,211

Current assets were allocated by geographical area using the following criteria: (i) cash and cash equivalents and financing receivables were allocated on the basis of the country in which individual company bank accounts were held; (ii) inventory was allocated on the basis of the country in which onshore storage facilities were situated (i.e. excluding inventory in storage facilities situated on vessels); (iii) trade receivables and other assets were allocated to the geographical area to which the related project belonged.

Non-current assets were allocated on the basis of the country in which the asset operates, except for offshore drilling and construction vessels, which were included under 'Unallocated'.

53 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 SpA to CDP Equity SpA (formerly Fondo Strategico Italiano SpA), Eni SpA no longer has sole control over Saipem SpA, which has been replaced by the joint control exercised by Eni SpA and CDP Equity SpA, on the basis of the shareholders' agreement indicated in the section 'Additional information' - Eni-CDP Equity Shareholder's Agreement' of this Report, 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 SpA companies involved.

Saipem SpA is not under the management or coordination of any other company. Saipem SpA manages and coordinates its subsidiaries pursuant to Article 2497 of the Civil Code.

Within the framework of transactions with related parties and pursuant to disclosure requirements of Consob Regulation No. 17221 of March 12, 2010, the following transactions were carried out, which exceeded the relevance threshold in compliance with the aforementioned Regulation in the Saipem SpA, procedure 'Transactions involving interests held by board directors and statutory auditors and transactions with related parties' Management System Guideline for Transactions of Greater Importance:

- on June 6, 2018, a contract was signed between Rete Ferroviaria Italiana SpA (RFI), Consorzio CEPAV Due (comprised of Saipem SpA, Impresa Pizzarotti & C. and Gruppo ICM SpA), Saipem SpA, Impresa Pizzarotti & C., Gruppo ICM SpA and Eni SpA, for the executive planning and construction of the Brescia-Verona Linea AV/AC Milano-Verona railway line ('Secondo Atto Integrativo') (hereinafter 'the Contract'). 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.
  The object of the Contract is the engineering and construction of the high-speed railway section/Brescia-Verona high-speed railway of about 48 km and related infrastructures and interconnections; the works are divided into two construction lots and will last for 82 months. The flat-rate contractual price is €1,645.80 million for the First Construction Lot (LC1). The entire value of the section is equal to €2,160 million.
  Within the overall context of the Contract, Eni SpA holds the role of guarantor towards RFI of the CEPAV Due bonds in accordance with the provisions of the aforementioned agreement.
  For this reason, the members of the CEPAV Due Consortium, and Saipem SpA, is included among these, have committed themselves to Eni SpA (against the guarantee commitments of the latter to RFI) to issue a bank or insurance guarantee in favour of Eni SpA, which for Saipem SpA is equal to 59.09% of 12% (or 10% plus any increases) of the contractual amount of the First Construction Lot and to issue to Eni SpA a corporate guarantee of the same value for Saipem SpA 59.09% of 120% (or 100% plus any increases) of the contractual amount of the First Construction Lot. Furthermore, within the overall context of the Contract, Cassa Depositi e Prestiti SpA undertook to issue the bank guarantee of the advance on the First Construction Lot in favour of RFI in the interest of Consorzio CEPAV Due for an amount equal to 10% of the contract value of the First Construction Lot, of which the share guaranteed by Saipem SpA is equal to 59.09% of the total, corresponding to Saipem's share of the Consorzio CEPAV Due; still within the overall context of the Contract, the consortium members, and Saipem SpA, is included among these, have undertaken to indemnify the customer in relation to the events that have led, following the exit from the consortium team of a consortium member, to the current composition of the Consorzio CEPAV Due.
  Considering that: (i) RFI, Cassa Depositi e Prestiti SpA, Eni SpA and CDP Equity SpA are companies subject to common control by the Ministry of the Economy and Finance; (ii) Eni SpA and CDP Equity SpA, exercise joint control over Saipem SpA which, in turn, now holds 59.09% of Consorzio CEPAV Due, all the operations described are configured as transactions with related parties as they are carried out between companies subject to common control, or with the parent company, even jointly (section 2 of the above-mentioned Saipem SpA Procedure);
- on August 1, 2018, Saipem SpA, Saipem Contracting Algérie and First Calgary Petroleums LP ('FCP'), a company indirectly controlled by Eni SpA, holder of 75% of the interests of the client consortium, signed an agreement to close the dispute in progress for the Menzel Ledjmet Est ('MLE') project in Algeria, concerning the engineering, procurement and construction of a gas treatment unit and related works in the MLE oil field in Algeria.
  The agreement signed on August 1, 2018 defines the sum of a total of €317,000,000 in settlement of the requests made by Saipem SpA and Saipem Contracting Algérie to the consortium, with the consequent right of Saipem SpA and Saipem Contracting Algérie to retain an amount up to €237,750,000 the total paid on a without prejudice basis as an advance to the Saipem Group for variation order requests (equal to €245,794,779.06) solely from FCP during the project (75% of €317 million = €237.75 million) and therefore with the consequent return to FCP of €8,044,779.06.
  Considering that: (i) First Calgary Petroleums LP is a company indirectly controlled by Eni SpA; (ii) Eni SpA and CDP Equity SpA exercise joint control over Saipem SpA, which, in turn, controls Saipern Contracting Algérie SpA, the operation described is considered a transaction with related parties as they are carried out with the parent company, even jointly (section 2 of the aforementioned Saipem SpA Procedure).
  For more details, see the 'Legal proceedings' section ' Arbitration on the Menzel Ledjmet Est project ('MLE'), Algeria';
- On December 17, 2018, a binding letter of intent was signed between Servizi Energia Italia SpA (a wholly owned subsidiary of Saipem SpA), and the grouping of companies composed of Saipem Contracting Nigeria Ltd (a wholly owned subsidiary of Saipem SpA) and Fenog Nigeria Ltd, on the one hand, and the customer, Nigerian Agip Oil Co ('NAOC'), on the other, in relation

to the Okpai Independent Power Plan Phase 2 Project ('the Project'). NAOC is a wholly owned subsidiary of Eni SpA and has commissioned SEI, SCNL and Fenog Nigeria Ltd to carry out the activities referred to in the letter of intent, as agent of a joint venture called NAOC JV. The Project concerns the engineering, materials procurement and construction activities for doubling the capacity of the Okpai power plant, located in the Delta State in Nigeria. In particular, the signing of the letter of intent will allow for the completion of engineering activities, the procurement of all materials and the transport of critical materials to the site, as well as the first construction works related to civil works and housing preparation for the staff.
With the signing of the letter of intent the value of the assets was increased to €337 million equivalent, of which €303 million equivalent are attributable to Saipem SpA, through its two subsidiaries Servizi Energia Italia SpA and Saipem Contracting Nigeria Ltd.
In consideration that: (i) Servizi energia Italia SpA and Saipem Contracting Nigeria Ltd are subisiaries of Saipem SpA (one a direct subsidiary, the other an indirect subsidiary); (ii) Saipem SpA is jointly controlled by Eni SpA and CDP Equity SpA; (iii) NOAC is entirely controlled by Eni SpA, the transaction indicated is a transaction with related parties, as it is carried out with a company under common control with Saipem SpA, also jointly (Article 2 of the aforementioned Saipem SpA Procedure);
- On December 20, 2018, Saipem SA, Saipem Misr for Petroleum Services (S.A.E.) (100% subsidiary of Saipem SpA) and Belayim Petroleum Co – joint venture comprised of Egyptian General Petroleum Corp (EGPC, external company) at 50% and the other 50% by IEOC (subsidiary of Eni SpA in Egypt), negotiated an addendum to the offshore contract for a value of over US$ 1.2 billion for activities of engineering, procurement, construction and installation (EPCI) concerning the 'Ramp Up to Plateau' stage of the 'supergiant' Zohr Field Development, project located in the Mediterranean Sea off the Egyptian coast. The current additional activities include installation of a second pipeline for the export of gas, measuring 30 inches in diameter, and the relative interconnecting electrical umbilical and cable lines as well lines in fiber optics, and EPCI works for the development of 10 wells in deep water (up to 1,700 metres). These additional activities are part of the Zohr project, already acquired by Saipem, and increase its value by about USD 1.2 billion (plus options for around USD 90 million). These activities will be carried out in continuity with the same project and will see the beginning of the operational phase starting from January 2019, and will be for the installation of a further gas export pipeline and related interconnection lines, umbilicals and cables, as well as works for the development of additional deep water wells.
  Considering that: (i) the Saipem Group companies awarded the works (Saipem SA and Saipem Misr for Petroleum Services) are both wholly one controlled, one directly one indirectly by Saipem SpA; (ii) Saipem SpA is in turn jointly controlled by Eni SpA and CDP Equity SpA; (iii) Belayim Petroleum Co – joint venture comprised of Egyptian General Petroleum Corp (EGPC, external company) at 50% and the other 50% by IEOC – is jointly controlled by Eni SpA, the transaction indicated is a transaction with related parties, as it is carried out with a company under common control with Saipem SpA, also jointly (Article 2 of the aforementioned Saipem SpA Procedure).
- on December 20, 2018, a contract was signed between Saipem SpA and Eni Mexico S. de R.L de Cv, a company entirely controlled by Eni SpA, for offshore drilling off the Mexican coast of 15 wells plus optional wells distributed in three different options. The value of the contract is approximately USD 89 million for the 15 wells (estimated duration 1,095 days), while the total amount of the contract, including optional wells, is approximately USD 194 million (the total duration of the project, considering the 15 wells plus options, is estimated at 2,035 days).
  Considering that: (i) Saipem SpA is jointly controlled by Eni SpA and CDP Equity SpA; (ii) Eni Mexico S. de R.L. de Cv is wholly controlled by Eni SpA, the transaction indicated is a transaction with related parties, as it is carried out with a company under common control with Saipem SpA, also jointly (Article 2 of the aforementioned Saipem SpA Procedure).

All the transactions of greater importance indicated above are 'ordinary' and 'carried out at market or standard conditions'. Indeed, these consist of active contracts falling within the ordinary activity of the Offshore E&C, Onshore E&C and Drilling businesses and in the financial activity connected to them and that were assigned at market conditions.
It should also be noted that:
- the abovementioned Saipem SpA procedure, for the purpose of qualifying transactions at market conditions, refers to circumstances that are considered, by way of example, to be carried out at market or standard conditions for contracts that fall under the Offshore, Onshore and Drilling business which have margins that are above Division averages decreased by 20%; and which;
- this provision stems from the need to define – in relation to contracts that have a non-fungible objective (construction of works and services in the Onshore and Offshore sectors) and a consequently variable case-by-case market price that cannot be standardised – a reference that allows for the identification a market price for each operation and in relation to each of the 5 Divisions of Saipem and for each individual activity of the relevant Division. In this context, the wording in question shall be interpreted also in relation to the aforementioned transactions of greater importance so as to mean that, both in relations with third parties and in relations with related parties, any deviation of not less than 20% from the average margin for the Division in question certainly allows for the identification, also based on Saipem SpA's experience, of market conditions.

It should also be noted that Saipem SpA stipulates contracts of significant size and duration in the Onshore and Offshore E&C sectors, in geographical contexts often subject to regulatory and geopolitical changes during contract works. For this reason it often happens, both with third parties and with related parties that unexpected situations that cannot be predicted in advance arise during contract works. Their cost, which is often significant, is often determined while the work is proceeding or once it has been completed through the stipulation, both with third parties and related parties, of settlement agreements defining the overall claims of all parties. This also occurred in relation to the aforementioned agreement signed on August 1, 2018 with the related party First Calgary Petroleums LP regarding the MLE project.
It should be noted that, within the framework of transactions with related parties, 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, governed by market conditions, mainly relates to costs for mobile communication services for €1 million and trade payables for €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 during 2017 consisted of the following:

(€ million)

	Dec. 31, 2017			2017			
				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	-	-	-	-	1	-	-
Total unconsolidated subsidiaries	**-**	**-**	**-**	**-**	**1**	**-**	**-**
Joint ventures and associates							
ASG Scarl	-	2	-	-	2	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	8	49	144	-	21	31	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	3	6	119	-	4	-	-
Consorzio F.S.B.	-	-	-	-	1	-	-
KWANDA Suporte Logistico Lda	53	9	-	-	2	5	-
Petromar Lda	21	2	-	-	2	12	-
Rodano Consortile Scarl	-	1	-	-	-	-	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	8	8	-	-	7	-	-
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	1	-	-	-	-	-	-
TSGI Mühendislik İnşaat Ltd Şirketi	5	-	-	-	(1)	-	-
Xodus Subsea Ltd	3	2	-	-	-	-	-
Other (for transactions not exceeding €500 thousand)	1	-	-	-	-	-	-
Total joint ventures and associates	**103**	**79**	**263**	**-**	**38**	**48**	**-**
Companies controlled by Eni and CDP Equity SpA							
Eni SpA	3	3	1,189	-	5	8	-
Eni SpA Divisione Exploration & Production	4	-	-	-	-	48	-
Eni SpA Divisione Gas & Power	1	1	-	-	1	-	-
Eni SpA Divisione Refining & Marketing	5	-	11	-	-	12	-
Agip Kazakhstan North Caspian	-	-	2	-	-	-	-
Agip Oil Ecuador BV	2	-	-	-	-	9	-
Eni Adfin SpA	-	-	-	-	4	-	-
Eni Angola SpA	-	-	12	-	-	194	-
Eni Congo SA	25	3	6	-	-	96	-
Eni Corporate University SpA	-	1	-	-	2	-	-
Eni Cyprus Ltd	5	-	-	-	-	5	-
Eni East Sepinggan Ltd	-	-	-	-	-	1	-
Eni Gas e Luce SpA	-	-	-	-	1	-	-
Eni Ghana E&P	9	8	-	-	-	4	-
Eni Insurance Ltd	-	-	-	-	1	-	-
Eni Lasmo PLC	1	-	-	-	-	1	-
Eni Maroc BV	1	-	-	-	-	1	-
Eni Mediterranea Idrocarburi SpA	-	-	-	-	-	1	-
Eni Muara Bakau BV	16	4	17	-	-	81	-
Eni Norge AS	16	-	-	-	-	134	-
Eni Portugal BV	1	-	-	-	-	1	-
Eni Progetti SpA	2	-	-	-	1	5	-
EniServizi SpA	-	2	-	-	36	-	-
First Calgary Petroleum Lp	-	-	100	-	-	-	-
Ieoc Exploration BV	-	-	1	-	-	-	-
Naoc - Nigerian Agip Oil Co Ltd	37	2	-	-	-	41	-
Serfactoring SpA	-	1	-	-	-	-	-
Syndial SpA	-	-	1	-	-	-	-
Versalis SpA	16	-	26	-	-	50	-

The trade and other transactions for 2017 continue below:

(€ million)

Name	Dec. 31, 2017 Trade and other receivables	Trade and other payables and contract liabilities	Guarantees	2017 Expenses Goods	Services (1)	Revenues Goods and services	Other
Others (for transactions not exceeding €500 thousand)	1	-	1	-	1	-	-
Total companies controlled by Eni and CDP Equity SpA	**145**	**25**	**1,366**	**-**	**52**	**692**	**-**
Eni and CDP Equity SpA associated and jointly-controlled companies							
Blue Stream Pipeline Co BV	-	-	-	-	-	1	-
Mozambique Rovuma Venture SpA (formerly Eni East Africa SpA)	1	-	-	-	-	2	-
Greenstream BV	2	-	-	-	-	3	-
Mellitah Oil&Gas BV	-	-	30	-	-	-	-
Petrobel Belayim Petroleum Co	127	110	319	-	-	1,082	-
PetroJunìn SA	-	-	2	-	-	-	-
Raffineria di Milazzo	1	1	-	-	-	1	-
Transmediterranean Pipeline Co Ltd	-	-	-	-	-	1	-
Total Eni and CDP Equity SpA associated and jointly-controlled companies	**131**	**111**	**351**	**-**	**-**	**1,090**	**-**
Total Eni and CDP Equity SpA companies	**276**	**136**	**1,717**	**-**	**52**	**1,782**	**-**
Companies controlled or owned by the State	**21**	**31**	**71**	**-**	**-**	**36**	**-**
Total transactions with related parties	**400** (2)	**246**	**2,051**	**-**	**91**	**1,866**	**-**
Overall total	**2,411**	**4,036**	**5,525**	**2,298**	**4,198**	**8,999**	**39**
Incidence (%)	**16.67** (3)	**6.10**	**37.12**	**-**	**2.17**	**20.74**	**-**

(1) The item 'Services' includes costs for services, costs for the use of third-party assets and other costs.
(2) Regarding the €402 million indicated on page 112 it is necessary to add €2 million shown in the following table 'Financial transactions'.
(3) Incidence includes receivables shown in the table 'Financial transactions'.

Trade and other transactions during 2018 consisted of the following:

(€ million)

Name	Dec. 31, 2018 Trade and other receivables	Trade and other payables and contract liabilities	Guarantees	2018 Expenses Goods	Services (1)	Revenues Goods and services	Other
Joint ventures and associates							
ASG Scarl	1	(3)	-	-	(5)	1	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	46	165	261	-	20	27	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	(1)	5	119	-	1	(3)	-
Consorzio F.S.B.	-	-	-	-	1	-	-
KWANDA Suporte Logistico Lda	26	7	-	-	-	6	-
Petromar Lda	19	2	-	-	-	12	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	12	9	-	-	1	2	-
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	1	-	-	-	-	-	-
TSGI Mühendislik İnşaat Ltd S¸ irketi	13	-	-	-	-	8	-
Xodus Subsea Ltd	3	2	-	-	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	1	-
Total joint ventures and associates	**120**	**187**	**380**	**-**	**18**	**54**	**-**

The trade and other transactions for 2018 continue below:

(€ million)

	Dec. 31, 2018			2018			
				Expenses		Revenues	
Name	Trade and other receivables	Trade and other payables and contract liabilities	Guarantees	Goods	Services [1]	Goods and services	Other
Companies controlled by Eni and CDP Equity SpA							
Eni SpA	8	3	133	-	5	14	-
Eni SpA Divisione Exploration & Production	6	-	-	-	1	66	-
Eni SpA Divisione Gas & Power	2	1	-	-	-	-	-
Eni SpA Divisione Refining & Marketing	4	-	11	-	-	23	-
Eni Angola SpA	5	-	35	-	-	176	-
Eni Congo SA	16	1	3	-	-	46	-
Eni Corporate University SpA	-	1	-	-	1	-	-
Eni Cyprus Ltd	-	-	-	-	-	12	-
Eni East Sepinggan Ltd	10	2	7	-	-	21	-
Eni Ghana E&P	36	-	5	-	-	76	-
Eni Iraq BV	-	-	2	-	-	-	-
Eni Maroc BV	-	-	-	-	-	11	-
Eni Mediterranea Idrocarburi SpA	-	-	-	-	-	1	-
Eni Muara Bakau BV	-	3	18	-	-	9	-
Eni North Africa BV	6	-	-	-	-	6	-
Eni Pakistan Ltd	7	-	-	-	-	7	-
Eni Portugal BV	-	-	-	-	-	(2)	-
Eni Vietnam BV	-	-	-	-	-	7	-
EniProgetti SpA	3	-	-	-	-	6	-
EniServizi SpA	-	7	-	-	36	-	-
Floaters SpA	2	-	-	-	-	2	-
Ieoc Exploration BV	-	-	1	-	-	-	-
Ieoc Production BV	47	-	-	-	-	87	-
Naoc - Nigerian Agip Oil Co Ltd	80	59	-	-	5	140	-
Nigerian Agip Exploration Ltd	7	1	-	-	-	7	-
Serfactoring SpA	-	1	-	-	-	-	-
Société pour la Construction du Gasoduc Transtunisien SA (SCOGAT)	-	-	-	-	-	1	-
Versalis SpA	5	-	26	-	-	17	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	1	-	-
Total companies controlled by Eni and CDP Equity SpA	**245**	**79**	**241**	**-**	**49**	**733**	**-**
Eni and CDP Equity SpA associated and jointly-controlled companies							
Blue Stream Pipeline Co BV	-	-	-	-	-	1	-
Greenstream BV	1	-	-	-	-	2	-
Mellitah Oil&Gas BV	-	-	30	-	-	2	-
Mozambique Rovuma Venture SpA (formerly Eni East Africa SpA)	1	-	-	-	-	-	-
Petrobel Belayim Petroleum Co	346	42	178	-	-	923	-
PetroJunìn SA	-	-	2	-	-	-	-
Pharaonic Petroleum Co	-	-	2	-	-	-	-
Raffineria di Milazzo	7	5	-	-	-	8	-
Others (for transactions not exceeding €500 thousand)	-	1	-	-	-	-	-
Total Eni and CDP Equity SpA associated and jointly-controlled companies	**355**	**48**	**212**	**-**	**-**	**936**	**-**
Total Eni and CDP Equity SpA companies	**600**	**127**	**453**	**-**	**49**	**1,669**	**-**
Companies controlled or owned by the State	**36**	**27**	**67**	**-**	**1**	**30**	**-**
Total transactions with related parties	**756** [2]	**341**	**900**	**-**	**68**	**1,753**	**-**
Overall total	**2,644**	**3,879**	**5,461**	**1,780**	**4,285**	**8,526**	**12**
Incidence (%)	**28.67** [3]	**8.79**	**16.48**	**-**	**1.59**	**20.56**	**-**

(1) The item 'Services' includes costs for services, costs for the use of third-party assets and other costs.
(2) Regarding the €758 million indicated on page 112 it is necessary to add €2 million shown in the following table 'Financial transactions'.
(3) Incidence includes receivables shown in the table 'Financial transactions'.

The figures shown in the tables refer to Note 10 'Trade and other receivables', Note 21 'Trade and other payables and contract liabilities', Note 39 'Guarantees, commitments and risks', Note 40 'Net sales from operations', Note 41 'Other income and revenues' and Note 42 '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		Dec. 31, 2018	
(€ million)	Other assets	Other liabilities	Other assets	Other 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**	**167**	**101**
Incidence (%)	**0.70**	**20.00**	**0.60**	**-**

Financial transactions

Financial transactions for 2017 consisted of the following:

(€ million)

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

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

Financial transactions for 2018 consisted of the following:

(€ million)

	Dec. 31, 2018				2018		
Name	Cash and cash equivalents	Receivables [1]	Payables	Commitments	Expenses	Income	Derivative financial instruments
Petromar Lda	-	-	-	-	-	1	-
Serfactoring SpA	-	2	-	-	-	-	-
Total transactions with related parties	**-**	**2**	**-**	**-**	**-**	**1**	**-**

(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			Dec. 31, 2018		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Short-term debt	120	-	-	80	-	-
Long-term debt (including current portion)	2,998	-	-	2,871	-	-
Total	**3,118**	**-**	**-**	**2,951**	**-**	**-**

	2017			2018		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Finance income	309	1	0.32	209	1	0.48
Finance income	(617)	-	-	(268)	-	-
Derivative financial instruments	85	-	-	(106)	-	-
Other operating income (expense)	-	-	-	(1)	-	-
Total	**(223)**	**1**	**-**	**(166)**	**1**	**-**

The main cash flows with related parties were as follows:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Revenues and other income	1,866	1,753
Costs and other expenses	(91)	(68)
Finance income (expenses) and derivatives	1	1
Change in trade receivables and payables	130	(261)
Net cash provided by operating activities	**1,906**	**1,425**
Change in financial receivables	1	-
Net cash flow from investments	**1**	**-**
Change in financial payables	-	-
Net cash from financing activities	**-**	**-**
Total cash flows with related parties	**1,907**	**1,425**

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

	Dec. 31, 2017			Dec. 31, 2018		
(€ million)	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Cash provided by operating activities	459	1,906	415.25	711	1,425	200.42
Cash used in investing activities	(282)	1	(0.35)	(551)	-	-
Cash flow from financing activities (*)	(207)	-	-	(172)	-	-

(*) Cash flow from financing activities does not include dividends distributed, net purchase of treasury shares, capital contributions by non-controlling interests and the purchase of additional interests in consolidated subsidiaries.

Information on jointly controlled entities

The table below contains information regarding jointly-controlled entities consolidated using the working interest method as at December 31, 2018:

(€ million)	Dec. 31, 2017	Dec. 31, 2018
Net capital employed	(55)	(55)
Total assets	58	57
Total current assets	58	57
Total non-current assets	-	-
Total liabilities	58	57
Total current liabilities	58	57
Total non-current liabilities	-	-
Total revenues	5	-
Total operating expenses	(5)	-
Operating profit	-	-
Net profit (loss) for the year	-	-

54 Significant non-recurring events and operations

No significant non-recurring events or operations took place in 2017 or 2018.

55 Transactions deriving from atypical or unusual transactions

In 2017 and 2018, no atypical and unusual transactions were reported.

56 Events subsequent to year end

Information on subsequent events is provided in the section ‘Subsequent events’ of the ‘Directors’ Report’.

57 Additional information: Algeria

Further to the disclosures provided in the Algeria paragraph of the 'Legal proceedings' section, we note the following additional information with regard to projects under completed in Algeria as at December 31, 2018:
- funds in two current accounts (ref. Note 8) amounting to the equivalent of €71 million are currently frozen (€70 million at December 31, 2017);
- trade receivables (ref. Note 10) amounted to €0 million (€7 million at December 31, 2017);
- the other fund for risks and costs (see Note 26) amount to €51 million (€22 million at December 31, 2017), mainly for the provision made by the Company following the decision handed down on September 19, 2018, by the Court of Milan (section IV) on the subject of crimes alleged to have been committed in Algeria until June 2011 in relation to several projects completed in the past;
- other debt (ref. Note 21) amounted to €5 million (€131 million at December 31, 2017);
- guarantees (ref. Note 39) on projects completed totalled €30 million (€347 million at December 31, 2017).

58 Additional information: Consob Resolutions No. 20324 and No. 20828

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, specifying that on March 12, 2019 Saipem issued a press release whereby it informed about the Consob Resolution of February 21, 2019.

59 Additional information: obligations regarding transparency and disclosure. Italian Law August 4, 2017, No. 124 (Article 1, sections 125-129)

During 2018, Saipem SpA and the Italian companies in the sector received no public funds pertaining to application of Law No. 124/2017 (Article 1, sections 125-129) and subsequent amendments.
In particular, the following do not pertain to the sector of application of the above-mentioned law: (i) forms of incentive/grants received in application of a general scheme of aid to all those having the right; (ii) fees applied to the provision of works/services, including sponsorships; (iii) reimbursements and indemnities paid to persons engaged in training and orientation courses; (iv) contributions received for continuous training by interprofessional funds established in the legal form of associations; (v) membership dues for belonging to associations of the category and territorial associations, also in favour of foundations or equivalent organisations, functional to the activities connected with the company business. The contributions are identified according to the cash criterion.
The information referring to the sector of application of the above-mentioned law includes contributions for amounts in excess of €10,000 made by the same party during 2018, also via several deeds.

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 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 correctedness 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 'property, plant and equipment' for 2015, Consob alleges the incorrect application of IAS 16 Accounting Principle 'property, plant and equipment' and of IAS 36.
Specifically, Consob alleges that some write offs carried out by the Company on 'property, plant 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 'property, plant 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 'property, plant 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 assets and financial situation – supported by comparative data – of the effects of accounting in compliance with the regulations would have produced on the company's financial condition, on the income statement and on 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 April 27, 2018, Saipem lodged an appeal at the regional Administrative Court of Lazio requesting the annulment of the Resolution and of any other presumed or related act and/or provision.
On May 24, 2018, Saipem filed with the TAR-Lazio additional grounds for appeal against the aforementioned Resolution.
The proceeding is pending.
On April 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'*.
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 disagreed and that it will appeal before the Regional Administrative Tribunal (TAR) of Lazio – 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 have charged 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.
Saipem and all the company executives who have received the Communication have proceeded to file their defences with the Consob Offices.

Consob, with its Resolution No. 20828 of February 21, 2019, communicated to Saipem on March 12, 2019 and adopted at the outcome of the procedure for application of a monetary fine initiated on April 6, 2018, applied the following monetary fines: a) €200,000 on the company CEO; b) €150,000 on the manager charged with preparing the Company's financial reports in office at the time of the capital increase in 2016.
Consob also sentenced Saipem SpA to a payment of €350,000, as the party jointly liable for payment of the aforementioned administrative fines with the two persons fined pursuant to Article 195, section 9, of the Finance Law (in force at the time of the alleged violations), with obligation to recourse against the authors of the alleged breaches.
Consob ordered the filing of the procedure launched on April 6, 2018, against the non-executive Directors in office at the time of the facts alleged.
The Board of Directors of Saipem resolved on April 2, 2019 to appeal the Resolution No. 20828 before the Court of Appeal.

Ongoing investigations. Public Prosecutor's Office of Milan - 2015 and 2016 Financial Statements. Prospectus of the January 2016 capital increase
On January 22, 2019, the Public Prosecutor's Office of Milan notified Saipem SpA of a 'local search warrant and seize notice of investigation', in relation to the alleged administrative offence pursuant to Articles 5, 6, 7, 8 and 25-*ter* - lett. B), Legislative Decree No. 231/2001, based on the alleged crime of false accounting allegedly committed from April 2016 to April 2017, as well as in relation to the alleged unlawful administrative act pursuant to Articles 5, 6, 7, 8 and 25-*sexies* of Legislative Decree No. 231/2001, based on the alleged crime of manipulation of the market, allegedly committed from October 27, 2015 to April 2017.
At the same time, the Public Prosecutor's Office of Milan notified the Chief Executive Officer of the Company, as well as, for various reasons, two of its managers (including the current Manager responsible for the preparation of financial reports appointed on June 7, 2016) and a former manager of an investigation concerning the following offences: (i) accounting relating to the 2015 and 2016 financial statements; (ii) manipulation of the market allegedly committed from October 27, 2015 to April 2017; and (iii) false statements in the Prospectus issued with reference to the documentation for the offer of the capital increase in January 2016.
Preliminary investigations are currently still under way.
In the press release issued on January 22, 2019 Saipem pointed out that:
- as disclosed by the Company to the market on March 5, 2018, Consob, with a resolution dated March 2, 2018, affirmed the non-compliance of the Company's separate and consolidated financial statements for 2015 and 2016 with the regulations that govern their preparation. In the month of April 2018, Saipem appealed this resolution before the Regional Administrative Tribunal (TAR) of Lazio, from which it is awaiting judgement;
- as communicated by the Company to the market on April 8, 2018, on April 6, 2018, the Issuer's Information Division of Consob initiated an administrative sanctioning proceeding claiming some violations, pursuant to Articles 191 and 195 of Legislative Decree No. 58/1998 ('TUF'), in relation 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. This proceeding is still underway.

Saipem cited the press releases of March 5, 2018 and April 8, 2018 for additional information.

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

1. The undersigned Stefano Cao and Mariano Avanzi in their capacity as CEO and Manager responsible for the preparation of financial reports of Saipem SpA, respectively, pursuant to Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree No. 58 of February 24, 1998, certify that the internal controls over financial reporting in place for the preparation of the consolidated financial statements as of December 31, 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 2018 report.

2. Internal controls over financial reporting in place for the preparation of the consolidated financial statements as of December 31, 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 Consolidated Financial Statements at December 31, 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, results of operations and cash flows of the Parent Company and the Group consolidated companies as of and for the period presented in this report;
   3.2 the Directors' Report provides a reliable analysis of business trends and results, including a trend analysis of the Parent Company and the Group companies, as well as a description of the main risks and uncertain situations to which they are exposed.

March 11, 2019

/signed/ Stefano Cao
Stefano Cao
CEO

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

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Saipem S.p.A.

Consolidated financial statements as at December 31, 2018

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Saipem S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saipem Group (the Group), which comprise the balance sheet as at December, 31, 2018, and the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.
We are independent of Saipem S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

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Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Key Audit Matter	Audit Response
Revenue recognition and valuation of construction contracts The consolidated financial statements of Saipem Group include net sales from continuing operations for Euro 8.526 million. Such sales and the related profit are mainly related to construction contracts and are recognized in accordance with percentage of completion method, based on the costs incurred over the costs forecast to complete each project. The processes and methodologies for recognizing revenues and evaluating contract assets and liabilities are based on valuation criteria which by their nature imply use of the management's judgement, particularly with reference to the estimate of contractual risks and penalties, where applicable, changes to contractual terms expected or being negotiated and changes in estimates as compared to the previous year. Considering the materiality of revenues and contract assets and liabilities, the complexity of assumptions used in estimating the costs expected to complete the projects and the potential impact of changes in estimates on the net result of the year, we identified this area as a key audit matter. The disclosures related to revenue recognition and evaluation of construction contracts are included in note 4 "Accounting estimates and significant judgements - Contract Revenues, Assets and Liabilities" and in note 40 "Net sales from operations" to the consolidated financial statements.	Our audit procedures in response to this key audit matter included, among others: i. assessment of processes and key controls implemented by Saipem S.p.A. related to planning and control over the projects; ii. assessment of the key assumptions used to estimate costs to complete the projects and to determine total revenues for a sample of significant contracts, through the analysis of internal projects' documentation and reports, inquiries with project managers and review of the contracts' terms; iii. analysis of the assumption that involved use of the management's judgement, specifically with reference to revenue recognition criteria related to projects' deviations or claims, through the assessment of both technical and legal appraisal analysis prepared by Management's experts; iv. execution of test of details on a sample of contracts' costs; v. test of percentages of completion for a sample of significant contracts. Lastly, we assessed the adequacy of disclosures provided in the consolidated financial statements related to revenue recognition and evaluation of construction contracts.
Impairment of assets The consolidated financial statements of Saipem Group include property plant and equipment for Euro 4.326 million and intangible assets for Euro 702 million, of which Euro 667 million related to goodwill. The processes and methodologies for assessing and determining the recoverable value of each Cash Generating Unit ("CGU"), are based on	Our audit procedures related to this key audit matters included, among others: i.assessment of processes and key controls implemented by management related to impairment of assets, considering the impairment test methodology approved by the Board of Directors; ii. assessment of the appropriateness of the determination of the CGUs and the allocation

complex assumption that by their nature imply use of the management's judgment, in particular with reference to the forecast of future cash flows related to the period covered by the Strategic Plan 2019 - 2022 and beyond.

In particular, the assumptions related to acquisition of future contracts, their forecasted cash flows and expected margins, as well as the forecasted vessel daily rates, in the long term period, are relevant for the estimate of future cash flows.

Considering the judgment involved and the complexity of assumptions used in estimating the recoverable amount, we identified this area as a key audit matter.

The disclosures related to the impairment of assets are included in note 4 "Accounting estimates and significant judgements - Write-down of non-financial assets", in notes 15 "Property, plant and equipment" and 16 "Intangible assets" to the consolidated financial statements.

of assets and liabilities to the carrying value of each CGU;

iii. assessment of cash flows forecasts included in the Strategic Plan 2019 - 2022 approved by the Board of Directors on February 27, 2019;

iv. assessment of key assumptions used by management in their impairment test;

v. assessment of the reasonableness of cash flow forecasts for each CGU including comparisons to historical data and considering internal and external evidence;

In performing our procedures we leveraged the use of EY valuation specialists to test of mathematical accuracy of the calculation and performed sensitivity analyses of key assumptions to determine any changes that could materially impact the valuation of the recoverable amount.

Lastly, we assessed the adequacy of disclosures provided in the consolidated financial statements related to impairment of assets.

Contingent Liabilities and Provision for contingencies

Saipem S.p.A. and certain Group subsidiaries are involved in judicial and administrative proceedings.

The processes and methodologies for assessing the risks associated with such proceedings are based on complex assumptions that, by their nature, imply recourse to the judgements of directors, specifically with reference to the assessment of uncertainties related to the expected outcome of the proceedings, their classification within provisions or liabilities, and the adequacy of information provided in the consolidated financial statement, considering the assessment made by the internal legal department and by external legal counsels.

Considering the judgment involved and the complexity of certain assumptions connected to such contingent liabilities, we identified this area as a key audit matter.

Our audit procedures related to the key audit matters included, among others:

i. assessment of processes and key controls implemented by Saipem S.p.A. in order to identify and evaluate contingent liabilities and related accruals in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets;

ii. assessment of the assumption used by Saipem S.p.A. in estimating the outcome of potential legal claims, also considering information obtained from internal and external legal counsels, the Internal Audit group, the Audit Committee, management and the Company's Audit and Risk committee;

iii. assessment, also with the support of EY experts, of internal and external documentation related to such potential legal proceedings, information obtained from

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The disclosures related to contingent liabilities are included in the note 4 "Accounting estimates and significant judgements - Contingencies" and in the paragraph "Legal Proceedings" of the consolidated financial statements.

internal and external legal counsels, and technical reports provided by management's expert, as well as the assessment of their competence and capabilities.

Lastly, we assessed the adequacy of disclosures provided in the consolidated financial statements related to contingent liabilities.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Parent Company Saipem S.p.A. or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material

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misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholder of Saipem S.p.A., in the general meeting held on April 26, 2010, engaged us to perform the audits of the consolidated financial statements of each years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Saipem S.p.A. are responsible for the preparation of the Directors' Report and of the Corporate Governance and Shareholding Structure Report' of Group Saipem as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Directors' Report and of specific information included in the Corporate Governance and Shareholding Structure Report' as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Saipem Group as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Directors' Report and the above mentioned specific information included in the Corporate Governance and Shareholding Structure Report' are consistent with the consolidated financial statements of Saipem Group as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Saipem S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, April 3, 2019

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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SAIPEM

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

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

Saipem Sustainability (in English)

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