

ANNUAL REPORT 2016



Mission

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

Values

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

Disclaimer

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

Some of the risks mentioned are examined further in the paragraph entitled 'Risk Management' and in the Notes to the Consolidated Financial Statement.

The forecast figures and information refer to information available at the time of their dissemination. On this issue Saipem SpA does not accept any obligation to review, update and correct those figures following this date, unless in cases explicitly prescribed by applicable regulations.

Countries in which Saipem operates

EUROPE

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

AMERICAS

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

CIS

Azerbaijan, Georgia, Kazakhstan, Russia, Turkmenistan, Ukraine

AFRICA

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

MIDDLE EAST

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

FAR EAST AND OCEANIA

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

Board of Directors and auditors of Saipem SpA

BOARD OF DIRECTORS

Chairman
Paolo Andrea Colombo

Chief Executive Officer (CEO)
Stefano Cao

Directors
Maria Elena Cappello, Federico Ferro-Luzzi,
Francesco Antonio Ferrucci, Guido Guzzetti, Flavia Mazzarella,
Nicla Picchi, Leone Pattofatto¹

BOARD OF STATUTORY AUDITORS

Chairman
Mario Busso

Statutory Auditors
Giulia De Martino
Massimo Invernizzi

Alternate Auditors
Paolo Sfamini
Maria Francesca Talamonti

⁽¹⁾ Appointed as Director by resolution of the Board of Directors on January 21, 2016, to replace the Director Stefano Siragusa, resigned on the same date, and confirmed by resolution of the Shareholders' Meeting of April 29, 2016.

Independent Auditors

EY SpA

Direction and coordination activities (pursuant to Article 2497 et seq, Italian Civil Code)

Owing to the shareholder structure deriving from the entry into force of the Shareholders' Agreement between Eni and FSI (now CDP Equity SpA), aimed at 'realising joint control of Saipem by Eni and CDP Equity SpA', from January 22, 2016 Saipem ceased to be under the direction and coordination of Eni SpA pursuant to Article 2497 et seq of the Italian Civil Code.

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LETTER TO THE SHAREHOLDERS

Dear Shareholders,

during 2016, the average price of Brent settled at around \$45 a barrel, 15% lower than the approximately \$52 a barrel in 2015, because of the weakness of demand and the huge production of available crude oil. Despite the OPEC resolution in November, which contributed to a recent price stabilisation at levels above \$50, the target market in which your Company operates continues to be penalised by the delay or cancellations in investment decisions by Oil Companies.

In a market environment characterised by high volatility in crude oil prices our customers continue to focus on cost containment.

This has a negative impact on drilling activities and on project development activities, particularly in the deepwater sector.

The weakness of the market scenario has proven to be even more marked and more prolonged than previously assumed, we achieved important results in 2016.

New contracts awarded in 2016 amounted to €8,349 million, 28% growth compared to 2015 with significant acquisitions in the Offshore Engineering & Construction sector, thanks to new and important projects, mainly in the Mediterranean, the Caspian Sea, the Middle East and the Far East. The backlog stood at €14,219 at the end of 2016, with positive visibility for 2017.

After leaving the sphere of influence of Eni Group, the financial structure was completed, whose fundamental elements, downstream of the capital increase of €3.5 billion and the simultaneous refinancing of €4.7 billion, were the first 'dual tranche' bond issue in September, the negotiation of additional credit lines, as well as early repayment of the bridging loan in December 2016 from €1.6 billion maturing in 2017.

Overall, operating performance in 2016 can be considered good: the offshore sectors, both Engineering & Construction and Drilling, had excellent results, the Onshore Engineering & Construction sector broke even, while the Onshore Drilling sector was significantly affected by the decline of activities in Latin America.

Deterioration in market conditions have resulted in prospects for recovery that have shifted increasingly over time, leading to the need for a rationalisation of the asset base, mainly concerning some Offshore Drilling vessels and some fabrication sites, as well as the write-down of additional assets, for a total about €2.3 billion, which negatively impacted the results.

The savings on operating expenses deriving from implementation of the previously announced Fit for the Future 1.0 programme has already reached almost 90% of its target value. Furthermore, given the decline in the scenario during 2016 the Fit for the Future 2.0 programme was launched and is currently underway, the purpose of which is to review the organisation of the four divisions through which your Company operates in order to improve decision-making, make them more autonomous in pursuing their priorities and objectives, and allowing management to focus even more on operating performance.

Under the same programme a new business line was created which operates in the high engineering services industry, in order to expand the range of services and move up the involvement of customers in the decision making process for defining design choices.

The year's key figures were:

- revenues: €9,976 million;
- adjusted EBITDA: €1,266 million;
- EBITDA: €909 million;
- adjusted operating result (EBIT): €582 million;
- operating result (EBIT): -€1,499 million;
- adjusted net profit: €226 million;
- net loss: €2,087 million;
- capital expenditure: €296 million;
- net borrowings at December 31, 2016: €1,450 million;
- new contracts: €8,349 million;
- backlog of orders: €14,219 million.

More specifically, for Offshore Engineering & Construction, revenues for 2016 amounted to €5,686 million, down 17.5% compared to 2015. This was mainly attributable to lower volumes recorded in the Middle East, in Australia and Russia, which were mostly offset by higher volumes registered in Azerbaijan and Kazakhstan. The adjusted operating result in 2016 amounted to €379 million, or 6.7% of revenues, compared to €192 million in 2015, or 2.8% of revenues. The improvement is mainly attributable to the higher contribution of the projects running in Kazakhstan and Azerbaijan. For Onshore Engineering & Construction revenues for 2016 amounted to €2,844 million. The increase of 2% compared to 2015 is due to higher volumes of activity recorded in the Middle East. The adjusted operating result for 2016 amounted to €5 million, versus -€693 million in 2015. For Offshore Drilling revenues amounted to €903 million, a decrease of 15.4% compared to 2015, caused by the lower revenues of the drillship Saipem 12000, due to early termination of the contract, and

of the semi-submersible platform Scarabeo 6. The adjusted operating result for 2016 amounted to €234 million compared to €295 million in 2015, with a margin of 25.9%. For Onshore Drilling revenues for 2016 amounted €543 million, a decrease of 28.7% compared to 2015, mainly due to reduced activity in South America caused by the severe effects of the economy in South America. The adjusted operating result for 2016 is a loss of €36 million, compared to a profit of €52 million in 2015, due to higher costs of inactive resources in South America. Special items affecting the result are:

- write-downs of assets resulting from impairment tests; in Offshore Drilling, some vessels, mainly semi-submersible platforms, were partially written down as a result of impairment testing. Furthermore, two jack-ups and one semi-submersible platform were completely written down because they are not expected to be used in the medium term. In Onshore Drilling, some drilling rigs were fully or partially written off because the possibility of their being used in the medium term is expected to be null or limited. In Offshore E&C, a vessel was fully written down because it was not expected to be used in the medium term, an FPSO was partially written down, and as a result its useful life was revised by making it coincide with the end of the contract, due to the reduced possibility of renewal. In addition, some fabrication sites with little prospects of use in the medium term were partially written down. In Onshore E&C, a fabrication yard was fully written down because there were no prospects for its use in the medium term, and a logistics base was partially written down. Due to the above mentioned write-downs, as well as the reduction of operations and margins in some countries, related tax assets were written down;
- write-downs of drilling credits in South America;
- reorganisation expenses.

March 16, 2017

On behalf of the Board of Directors

The Chairman
Paolo Andrea Colombo



The Chief Operating Officer (CEO)
Stefano Cao



The actions taken against a negative market scenario have led to a significant reduction of capital expenditure made during the year, amounting to €296 million (€561 million in 2015), mainly relating to maintenance and upgrading. The breakdown is as follows: for the Offshore Engineering & Construction €117 million; for Onshore Engineering & Construction €8 million; for Offshore Drilling €94 million; for Onshore Drilling €77 million.

During 2016, the LTIFR (Lost Time Injury Frequency Rate) stood at 0.20 significantly better when compared to 2015 (0.31), reinforcing a multi-annual trend of continuous improvement of performance.

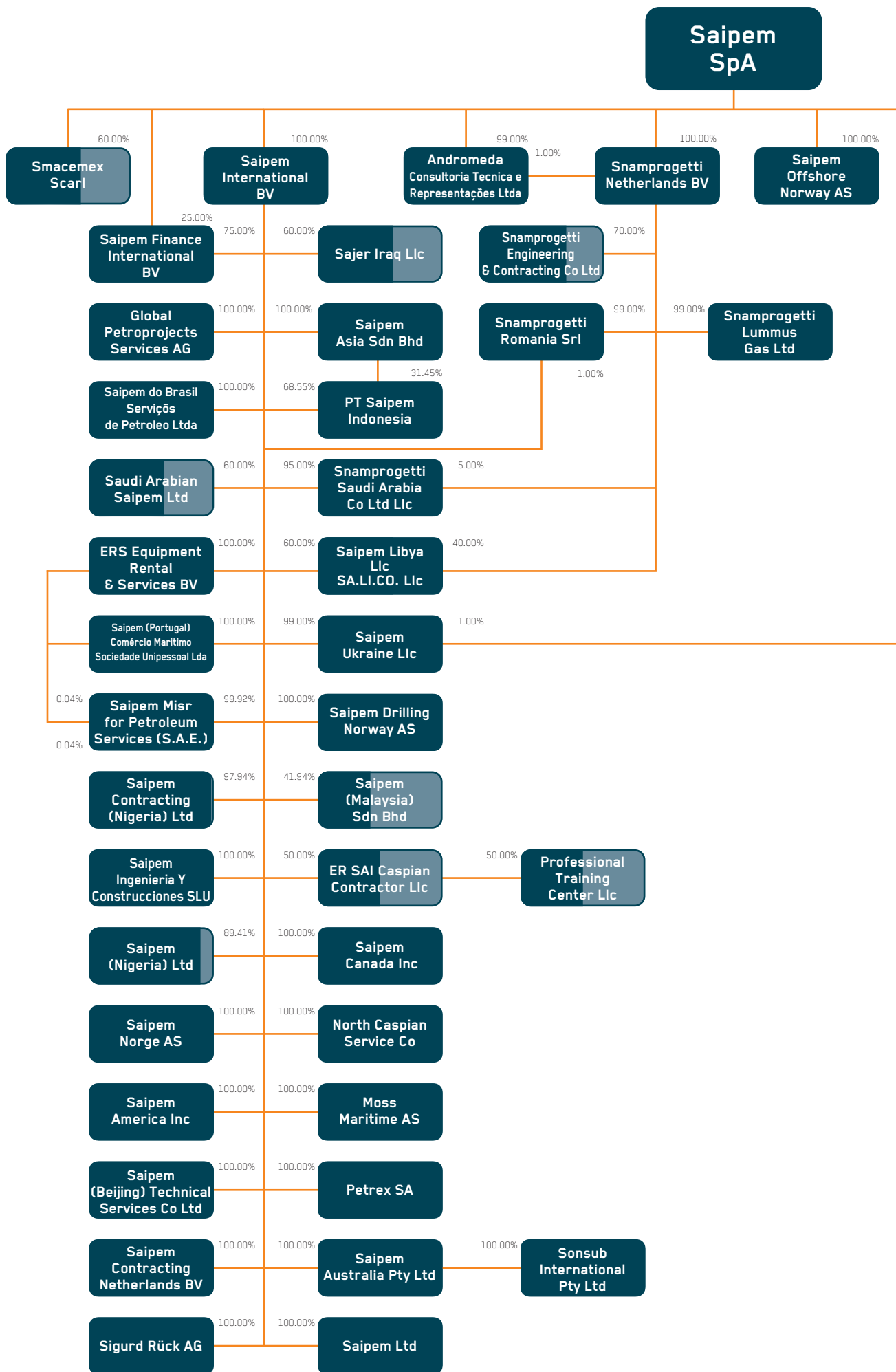
Unfortunately there was a fatal accident in the United Arab Emirates that involved the employee of a subcontractor on a fabrication site. Saipem had hired this subcontractor with the construction of an offshore structure. In-depth investigations were carried out into this event. The causes were identified and corrective actions are currently being implemented.

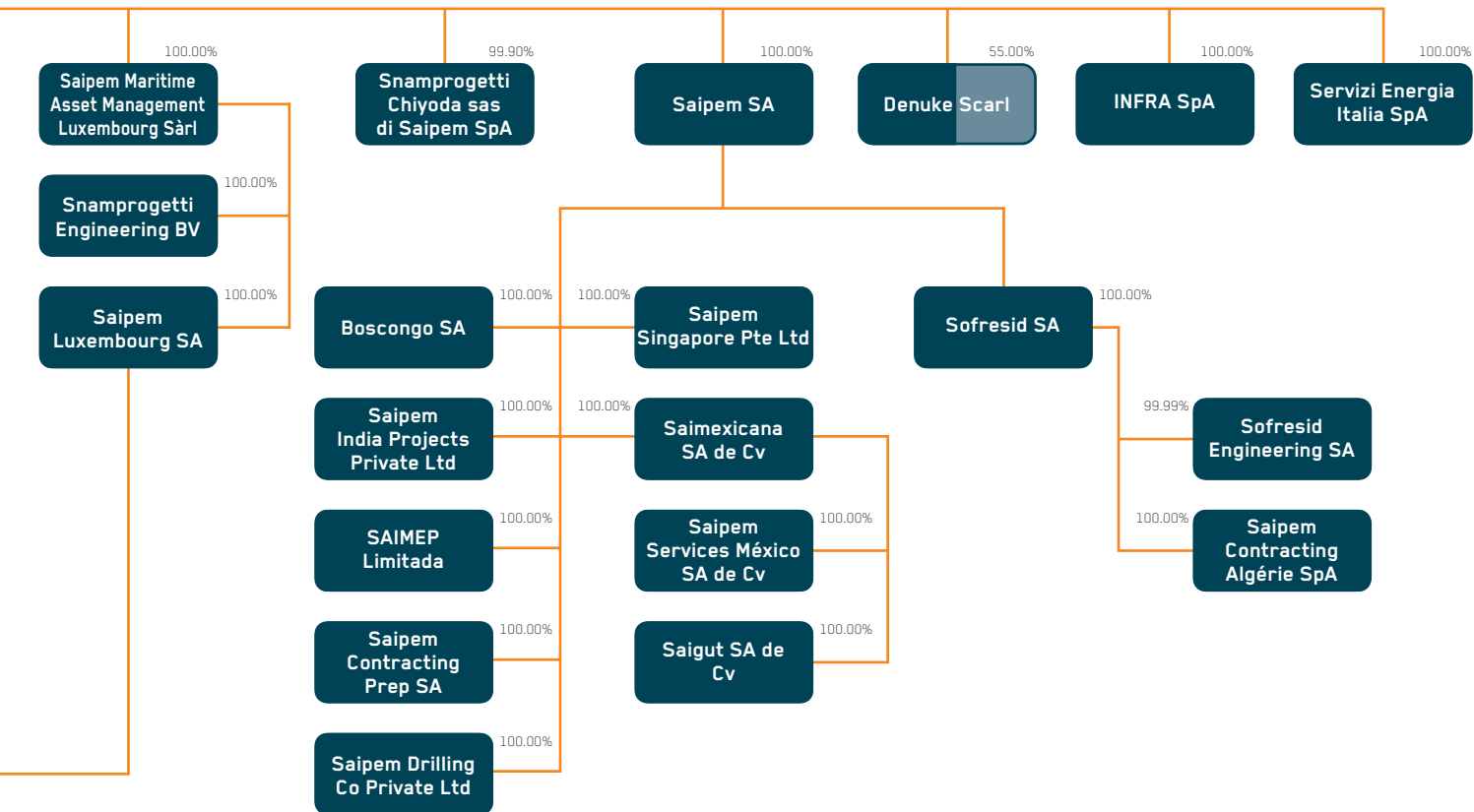
Attention to health and safety is at all times at the highest levels and awareness raising and training programmes, as well as risk analysis and implementation of prevention and protection measures, have been maintained on all sites, yards and vessels where Saipem operates.

The year 2017 is expected to be marked by a continuing weak market scenario and the recent signs of oil price stabilisation have currently not resulted in an improvement of the context in which Saipem operates. Nevertheless, the positive visibility of the backlog of orders at the end of 2016 allows us to forecast revenues at around €10 billion, with the EBITDA expected to be approximately €1 billion and net profit to exceed €200 million. Capital expenditure will be about €400 million, while the net indebtedness is expected to amount to €1.4 billion at the end of 2017.

SAIPEM GROUP STRUCTURE

(subsidiaries)





The chart only shows subsidiaries

Directors' Report

SAIPEM SPA

SHARE PERFORMANCE

During the course of 2016 the price of Saipem ordinary shares on the Italian Stock Exchange decreased by 42%. In the same period, the FTSE MIB index, which records the performance of the main Italian stocks, reported a decrease of 7%.

The first days of the year were affected negatively by the sharp fall in oil prices: on January 20, the Brent price touched \$28 a barrel, the lowest price ever reached in the last 12 years. On January 4, the Saipem share opened the year at €7.28 and on January 20 stood at €5.78.

In this difficult context, on January 21 the Board of Directors met to set the terms and conditions for a share capital increase voted upon by the Shareholders' Meeting of December 2, 2015.

The issue price was determined by applying a discount of 37% on the TERP of ordinary Saipem shares calculated on the basis of the official market price at January 31, 2017.

The issue price was therefore set at €0.362 per share, for shares having the same characteristics as ordinary Saipem shares outstanding, based on an allocation ratio of 22 new shares for every 1 share held and for a total value of €3,499,947,586.

On January 25, the subscription period opened and trading of option rights began on the Italian Stock Exchange (Borsa Italiana).

At the same time, Borsa Italiana adjusted the ordinary share price, an intervention made necessary by the share capital increase, setting an adjustment factor of $K=0.12588209$. At the end of trading that day, the official price stood at €0.597 per share.

The share capital increase transaction concluded on February 18, with 8,489,181,690 ordinary shares having been subscribed. This amounted to 87.8% of newly-issued ordinary shares. The remaining 1,179,181,806 shares were subscribed by the guarantor banks.

The share capital increase of €3,499,947,586 was therefore fully subscribed (€1,749,973,793 as capital and €1,749,973,793 as share premium). The new Saipem share capital therefore amounted to €2,191,384,693, divided into 10,109,665,070 ordinary shares and 109,326 savings shares. During the subscription period, the extreme instability of the price of oil led to strong turbulence on the stock markets, which affected, in particular, energy sector shares and negatively conditioned the share capital increase while it accentuated the weakness of the Saipem share. On February 12, the share reached its minimum for the half year, namely €0.302.

In March, the share prices went initially up to the level of 0.417, following the trend of the

Stock exchange data and indices		Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016
Share capital	(€)	441,410,900	441,410,900	441,410,900	441,410,900	10,109,774,396
Number of ordinary shares		441,297,465	441,297,615	441,301,574	441,301,574	10,109,668,270
Savings shares		113,435	113,285	109,326	109,326	106,126
Market capitalisation	(€ million)	12,983	6,860	3,872	3,324	5,419
Gross dividend per share:						
- ordinary shares	(€)	0.68	-	-	-	-
- savings shares	(€)	0.71	0.05	0.05	-	-
Price/earnings ratio per share: ⁽¹⁾						
- ordinary shares	(€)	14.39
- savings shares	(€)	17.13
Price/cash flow ratio per share: ⁽¹⁾						
- ordinary shares	(€)	7.97	12.45	4.18	21.58	16.88
- savings shares	(€)	9.49	13.70	8.59	27.23	170.39
Price/adjusted earnings ratio per share:						
- ordinary shares	(€)	14.39	..	21.51	..	23.98
- savings shares	(€)	17.13	..	44.26	..	242.01
Price/adjusted cash flow ratio per share:						
- ordinary shares	(€)	7.97	12.45	4.18	21.58	4.28
- savings shares	(€)	9.49	13.70	8.59	27.23	43.20

(1) Figures pertain to the consolidated financial statements.

recovery of the oil price, also supported by the announcement of the results for 2015, which received a positive welcome from the financial community. Subsequently, just as the tranche of shares underwritten by the guarantor banks (except Banca Intesa) went onto the market, a downward movement was triggered which sent the share price back down to the minimum of €0.30 recorded at the beginning of April.

In the following months and up to November the trend of the share price continued to alternate within a range between €0.30 and €0.44, affected by an uncertain and volatile market scenario and the financial markets' cautious attitude about the prospects for the oil and services industry, in spite of an improvement of crude oil prices which were maintained on average above \$42 a barrel (Brent price) for the remainder of 2016. At the end of November the reaching of an agreement on the limitation of oil production

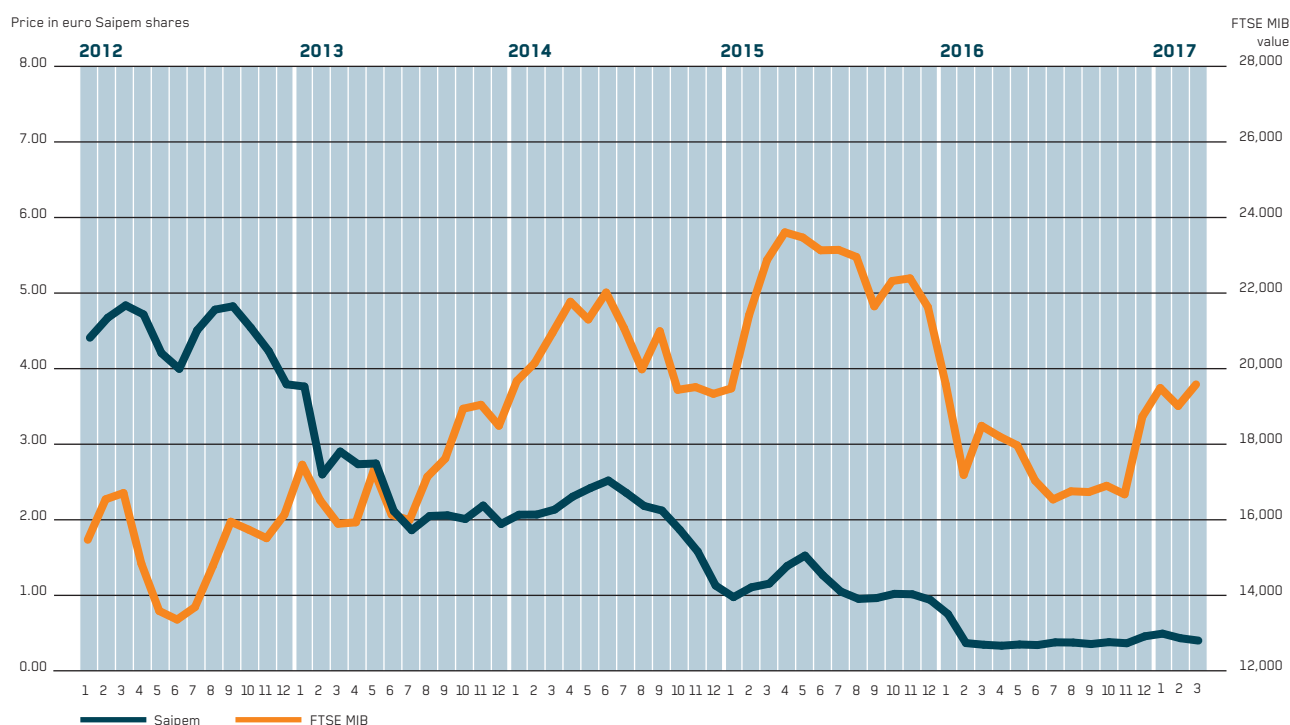
by the OPEC countries caused a sudden rise in crude oil prices; Brent price rose to more than \$50 a barrel and then closed the year above \$55. The news was received positively by the financial community, triggering optimism for the energy sector shares and prospects. The Saipem share closed the year at €0.536.

Saipem's market capitalisation at the end of the year was approximately €5.4 billion. In terms of share liquidity, 22 billion shares were traded during the year, with a daily average in the period of 86 million shares exchanged. The value of shares traded amounted to €8.8 billion, while in 2015 it was slightly below €16 billion.

As regards savings shares, which are convertible at par with ordinary shares, at the end of December 2016 there were 106,126. During the year their value, influenced by poor cash flow, decreased by 7%, having concluded 2016 at a price of €5.41.

Share prices on the Milan Stock Exchange	(€)	2012	2013	2014	2015	2016
Ordinary shares:						
- maximum		4.974	4.051	2.629	1.606	0.917
- minimum		3.774	1.586	1.951	0.918	0.302
- average		4.467	2.883	2.268	1.257	0.423
- year end		4.317	1.586	2.483	1.198	0.536
Savings shares:						
- maximum		20.40	21.47	12.87	11.07	6.20
- minimum		18.40	15.33	9.95	9.38	3.90
- average		18.83	16.92	11.17	10.78	5.72
- year end		19.99	16.56	12.27	9.38	5.41

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



GLOSSARY

Financial terms

- **Adjusted EBIT** operating result net of special items.
- **Adjusted EBITDA** gross operating margin net of special items.
- **EBIT** (earnings before interest and tax).
- **EBITDA** (earnings before interest, taxes, depreciation and amortisation).
- **IFRS** International Financial Reporting Standards. Accounting standards issued by the IASB (International Accounting Standards Board) and adopted by the European Commission. They comprise International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretations Committee (SIC) adopted by the IASB. The name International Financial Reporting Standards (IFRS) has been adopted by the IASB for standards issued after May 2003. Standards issued before May 2003 have maintained the denomination IAS.
- **Leverage** a measure of a company's level of indebtedness, calculated as the ratio between net borrowings and shareholders' equity including non-controlling interests.
- **OECD** Organisation for Economic Cooperation and Development.
- **ROACE** (Return On Average Capital Employed) calculated as the ratio between the net result before non-controlling interest, plus net finance charges on net borrowings less the related tax effect and net average capital employed.
- **Special items** items of income arising from events or transactions that are non-recurring or that are not considered to be representative of the ordinary course of business.
- **Write-off** cancellation or reduction of the value of an asset.

Operational terms

- **Brownfield** oil fields with few exploitable resources or that have come to a stage of declining production for which an attempt is made to extend producing life of the field by using cost-effective, low risk technologies.
- **Buckle detection** system that utilises electromagnetic waves during pipelaying to signal collapse of or deformations to pipeline laid.
- **Bundles** bundles of cables.
- **Carbon Capture and Storage** technology which enables the carbon present in gaseous effluents from hydrocarbon combustion and treatment plants to be captured and stored over long periods of time in underground geological formations, thus reducing or eliminating carbon dioxide emissions into the atmosphere.
- **Central Processing Facility** production unit performing the first transformation of crude oil or natural gas.
- **Cold stacked** idle plant with a significant reduction in personnel and reduced maintenance.
- **Commissioning** series of processes and procedures undertaken in order to start operations of a gas pipeline, associated plants and equipment.
- **Concrete coating** reinforced concrete coating for subsea pipelines in order to ballast and protect them from damage and corrosion.
- **Conventional waters** water depths of up to 500 metres.
- **Cracking** chemical-physical process, typically employed in dedicated refinery plants, whose objective is to break down the heavy hydrocarbon molecules obtained from primary distillation into lighter fractions.
- **Deck** area of a vessel or platform where process plants, equipment, accommodation modules and drilling units are located.
- **Decommissioning** process undertaken in order to end operations of a gas pipeline, associated plant or equipment. Decommissioning may occur at the end of the life of the plant following an accident, for technical or financial reasons, and/or on environmental or safety grounds.
- **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.
- **Dynamic 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 this has been completed, the vessel backs off and the module is secured to the support structure.
 - **Flowline** pipeline used to connect individual wells to a manifold or to gathering and processing facilities.
 - **FPSO** (Floating Production, Storage and Offloading) vessel comprising a large tanker equipped with a high-capacity production facility. This system, moored at the bow to maintain a geo-stationary position, is effectively a temporarily fixed platform that uses risers to connect the subsea wellheads to the on-board processing, storage and offloading systems.
 - **FSHR** (Free Standing Hybrid Risers) system consisting of a vertical steel pipe ('riser'), which is kept under tension by a floating module position near the water whose buoyancy ensures stability. A flexible pipe (jumper) connects the upper part of the riser to the Floating Production Unit (FPU), while the riser is anchored to the sea bottom by means of an anchoring system. A rigid pipe (riser base jumper) connects the lower part of the FSHR to the Pipe Line End Terminations (PLETs).
 - **FSRU** (Floating Storage Regasification Unit) a floating terminal in which liquefied natural gas is stored and then regasified before being transported by pipeline.
 - **Gas export line** pipeline for carrying gas from the subsea reservoirs to the mainland.
 - **Hydrocracker** installation in which large hydrocarbon molecules are broken down into smaller ones.
 - **Hydrotesting** operation involving high pressure (higher than operational pressure) water being pumped into a pipeline to ensure that it is devoid of defects.
 - **Hydrotreating** refining process aimed at improving the characteristics of oil fractions.
 - **International Oil Companies** privately-owned, typically publicly traded, oil companies engaged in various fields of the upstream and/or downstream oil industry.
 - **Jacket** platform underside structure fixed to the seabed using piles.
 - **Jack-up** mobile self-lifting unit comprising a hull and retractable legs used for offshore drilling operations.
 - **J-laying** method of pipelaying that utilises an almost vertical launch ramp, making the pipe configuration resemble the letter 'J'. This configuration is suited to deep water pipe laying.
 - **Lay-up** idle vessel with suspension of the period of validity of the class certificate.
 - **Leased FPSO** FPSO vessel for which a lease contract is in place between a client/lessee (i.e. an oil company) and a contractor/lessor, whereby the lessee makes lease payments to the lessor for use of the vessel for a specific period of time. At the end of the lease term, the lessee has the option to purchase the FPSO.
 - **LNG** (Liquefied Natural Gas) obtained by cooling natural gas to minus 160 °C.

- At normal pressure, gas is liquefied to facilitate its transportation from the place of extraction to that of processing and/or utilisation. A tonne of LNG is equivalent to 1,500 cubic metres of gas.
- **Local Content** policy whereby a company develops local capabilities, transfers its technical and managerial know-how and enhances the local labour market and businesses through its own business activities.
 - **LPG** (Liquefied Petroleum Gas) produced in refineries through the fractionation of crude oil and subsequent processes, liquid petroleum gas exists in a gaseous state at ambient temperatures and atmospheric pressure, but changes to a liquid state under moderate pressure at ambient temperatures, thus enabling large quantities to be stored in easy-to-handle metal pressure vessels.
 - **LTI** (Lost Time Injury) any work-related injury that renders the injured person temporarily unable to perform any regular job or restricted work on any day/shift after the day or shift on which the injury occurred.
 - **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) series of inspections and tests used to detect structural defects conducted using methods that do not alter the material under inspection.
 - **NDT Phased Array** non-destructive testing method that employs ultrasound to detect structural or welding defects.
 - **Offshore/Onshore** the term offshore indicates a portion of open sea and, by extension, the activities carried out in this area, while onshore refers to land operations.
 - **Oil Services Industry** industrial sector that provides services and/or products to the National or International Oil Companies engaged in oil exploration, production, transportation and conversion.
 - **P&ID** (Piping and Instrumentation Diagram) diagram showing all plant equipment, piping and instrumentation with associated shut-down and safety valves.
 - **Pig** piece of equipment used to clean, descale and survey a pipeline internally.
 - **Piggy back pipeline** small-diameter pipeline, fixed to a larger pipeline, used to transport a product other than that of the main line.
 - **Pile** long and heavy steel pylon driven into the seabed. A system of piles is used as the foundation for anchoring a fixed platform or other offshore structures.
 - **Pipe-in-pipe** subsea pipeline system comprising 2 coaxial pipes, used to transport hot fluids (Oil & Gas). The inner pipe transports the fluid, whereas the outer pipe carries the insulating material necessary to reduce heat loss to the sea. The outer pipe also protects the pipeline from water pressure.
 - **Pipe-in-pipe forged end** forged end of a coaxial double pipe.
 - **Pipelayer** vessel used for subsea pipe laying.
 - **Pipeline** pipes and auxiliary equipment used principally for transporting crude oil, oil products and natural gas to the point of delivery.
 - **Pre-commissioning** phase comprising pipeline cleaning 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 for maintenance or marginal replacements.
 - **QHSE** Quality, Health, Safety, Environment.
 - **Rig** drilling installation comprising the derrick, the drill deck (which supports the derrick), and ancillary installations that enable the descent, ascent and rotation of the drill unit, as well as mud extraction.
 - **Riser** manifold connecting the subsea wellhead to the surface.
 - **ROV** (Remotely Operated Vehicle) unmanned vehicle, piloted and powered via umbilical, used for subsea surveys and operations.
 - **Shale gas** unconventional gas extracted from shale deposits.
 - **Shallow waters** see Conventional waters.
 - **Sick Building Syndrome** a combination of ailments associated with a person's place of work. The exact causes of the syndrome are not known but the presence of volatile organic compounds, formaldehyde, moulds and dust mites may be contributing factors.

- **S-laying** method of pipelaying that utilises the elastic properties of steel, making the pipe configuration resemble the letter 'S', with one end on the seabed and the other under tension on-board the ship. This configuration is suited to medium to shallow-water pipelaying.
- **Slug catcher** equipment for the purification of gas.
- **Sour water** water containing dissolved pollutants.
- **Spar** floating production system, anchored to the seabed by means of a semi-rigid mooring system, comprising a vertical cylindrical hull supporting the platform structure.
- **Spare capacity** relationship between crude oil production and production capacity, i.e. quantity of oil which is not currently needed to meet demand.
- **Spool** connection between a subsea pipeline and the platform riser, or between the terminations of two 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 bitumen in tar sands is composed principally of high molecular weight hydrocarbons and can be converted into a variety of oil products.
- **Template** rigid and modular subsea structure where the oilfield well-heads are located.
- **Tendons** pulling cables used on tension leg platforms to ensure platform stability during operations.
- **Termination for convenience** the right to unilaterally terminate the contract at any time without giving a reason, upon payment of a contractually negotiated settlement in order to exercise said right (so called 'termination fee').
- **Tie-in** connection between a production line and a subsea wellhead or simply a connection between two pipeline sections.
- **Tight oil** oil 'trapped' in liquid form deep below the earth's surface in low permeability rock formations, which it is difficult to extract using conventional methods.
- **TLP** (Tension Leg Platform) fixed-type floating platform held in position by a system of tendons and anchored to ballast caissons located on the seabed. These platforms are used in ultra-deep waters.
- **Topside** portion of a platform above the jacket.
- **Train** series of units that achieve a complex refining, petrochemical, liquefaction or natural gas regasification process. A plant can be made up of one or more trains of equal capacity operating in parallel.
- **Trenching** burying of offshore or onshore pipelines.
- **Trunkline** oil pipeline connecting large storage facilities to the production facilities, refineries and/or onshore terminals.
- **Umbilical** flexible connecting sheath, containing flexible pipes and cables.
- **Upstream** relating to exploration and production operations.
- **Vacuum** second stage of oil distillation.
- **Warm Stacking** idle plant, but one ready to resume operations in the event that a new contract is acquired. Personnel is at full strength and ordinary maintenance is normally carried out.
- **Wellhead** fixed structure separating the well from the outside environment.
- **WHB** (Wellhead Barge) vessel equipped for drilling, workover and production (partial or total) operations, connected to process and/or storage plants.
- **Workover** major maintenance operation on a well or replacement of subsea equipment used to transport the oil to the surface.

OPERATING REVIEW

Market conditions

In 2016, the global GDP grew by close to 3%, highlighting a slowdown for the advanced economies, which were also due to suffer the consequences of the United Kingdom leaving the European Union, and for emerging markets, particularly countries in the Sub-Saharan area and Latin America. There was no end to the fall in the price of the euro compared to the dollar, closing 2016 with an exchange rate at minimum historic values of recent years. During 2016, the average price of Brent was around \$45 a barrel, down compared to 2015, where the average price was around \$52, because of the weakness of demand globally and the huge production of available crude oil. In 2016, lowering crude oil prices have seen the oil companies further reduce the volume of global investments in the short to medium term. The fall compared to previous years is the result of the delay in the awarding of projects underway and the cancellations of high risk projects, and of the cost reduction policies implemented by the Oil Companies.

Strategic Plan 2017-2020

The Board of Directors of Saipem SpA approved the Strategic Plan 2017-2020 on October 25, 2016, which identifies a series of measures that will allow the Company to face increasingly challenging market conditions, with the recovery expected to take longer than hypothesised in the 2016-2019 plan, in light of further forecasted reductions in investments by oil companies.

Consequently, the new plan reflects a decline in leasing payments and utilisation rates in the Onshore and Offshore Drilling sectors, as well as a downward revision of revenue and profitability in the Offshore and Onshore Engineering & Construction due to the postponement or cancellation of some projects.

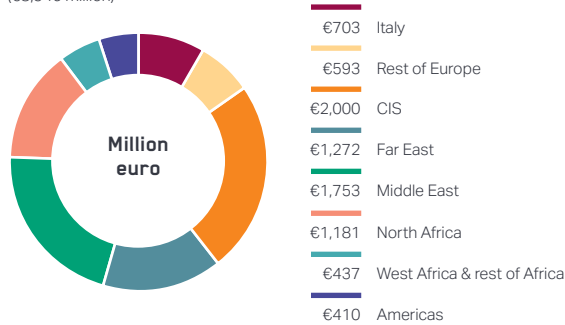
This 'lower for longer' market scenario was the basis for evaluating the recovery of all company assets. Consequently, both in the interim financial statement of September 30, 2016 and subsequently in the final version of the annual report, an impairment test was carried out which resulted in the impairment of some vessels. In addition, other vessels, fabrication sites and inventory have been, on the basis of changes in forecasts, fully impaired.

Finally, the plan provides for reduced operating prospects in some countries and this has consequently led to the write-down of certain current asset items, as well as tax credits no longer considered recoverable. At December 31, 2016, the total of impairments resulting from what has been mentioned above, amounting to €2,313 million, was defined as 'special items'; the nature of the impairments/write-downs and the businesses impacted are detailed on page 36.

Furthermore, specific details are provided in this Directors' Report in the 'Financial and economic results' section and in the notes accompanying the financial statements.

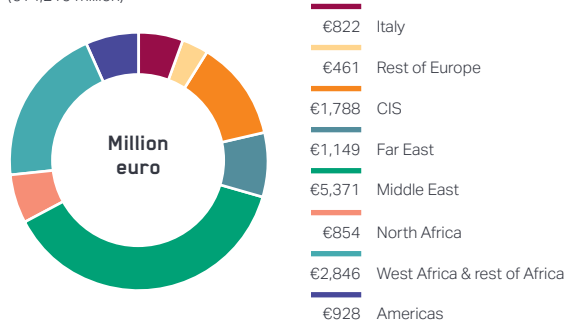
NEW CONTRACTS BY GEOGRAPHIC AREA

(€8,346 million)



ORDER BACKLOG BY GEOGRAPHIC AREA

(€14,219 million)



New contracts and backlog

New contracts awarded to the Saipem Group in 2016 amounted to €8,349 million (€6,515 million in 2015).

64% of all contracts awarded were in the Offshore Engineering & Construction sector, 26% in the Onshore Engineering & Construction sector, 1% in the Offshore Drilling sector and 9% in the Onshore Drilling sector.

Saipem Group - New contracts awarded during the year ended December 31						
	(€ million)		2015		2016	
	Amount	%	Amount	%	Amount	%
Saipem SpA	2,243	34	1,472	18		
Group companies	4,272	66	6,877	82		
Total	6,515	100	8,349	100		
Offshore Engineering & Construction	4,479	69	5,316	64		
Onshore Engineering & Construction	1,386	21	2,159	26		
Offshore Drilling	234	4	134	1		
Onshore Drilling	416	6	740	9		
Total	6,515	100	8,349	100		
Italy	279	4	703	8		
Outside Italy	6,236	96	7,646	92		
Total	6,515	100	8,349	100		
Eni Group	507	8	309	4		
Third parties	6,008	92	8,040	96		
Total	6,515	100	8,349	100		

New contracts to be carried out abroad made up 92% and contracts awarded by Eni Group companies 4% of the overall figure. Orders awarded to the parent company Saipem SpA amounted to 18% of the overall total. The backlog of the Saipem Group as at December 31, 2016 stood at €14,219 million. The breakdown of the backlog by sector is as follows: 50% in the Offshore Engineering

& Construction sector, 32% in the Onshore Engineering & Construction sector, 9% in Offshore Drilling and 9% in Onshore Drilling. 94% of orders are on behalf of overseas clients, while orders from Eni Group companies represent 7% of the overall backlog. The parent company Saipem SpA accounted for 34% of the total order backlog.

Saipem Group - Backlog as at December 31						
	(€ million)		2015		2016	
	Amount	%	Amount	%	Amount	%
Saipem SpA	5,386	34	4,899	34		
Group companies	10,460	66	9,320	66		
Total	15,846	100	14,219	100		
Offshore Engineering & Construction	7,518	47	7,148	50		
Onshore Engineering & Construction	5,301	34	4,616	32		
Offshore Drilling	2,010	13	1,241	9		
Onshore Drilling	1,017	6	1,214	9		
Total	15,846	100	14,219	100		
Italy	496	3	822	6		
Outside Italy	15,350	97	13,397	94		
Total	15,846	100	14,219	100		
Eni Group	1,736	11	983	7		
Third parties	14,110	89	13,236	93		
Total	15,846	100	14,219	100		

Capital expenditure

Capital expenditure in 2016 amounted to €296 million (€561 million in 2015) and mainly related to:

- €117 million in the Offshore Engineering & Construction sector, relating to the maintenance and upgrading of the existing asset base;
- €8 million in the Onshore Engineering & Construction sector essentially for the purchase of equipment;

- €94 million in the Offshore Drilling sector for class reinstatement works on the semi-submersible platform Scarabeo 8 and Scarabeo 9, as well as maintenance and upgrading of the existing asset base;
- for Onshore Drilling €77 million for the upgrading of two rigs for operations in Kuwait in the framework of two contracts in the backlog, as well as the upgrading of other assets.

The following table provides a breakdown of capital expenditure in 2016:

Capital expenditure	(€ million)	2015	2016
Saipem SpA		102	59
Other Group companies		459	237
Total		561	296
Offshore Engineering & Construction		168	117
Onshore Engineering & Construction		36	8
Offshore Drilling		247	94
Onshore Drilling		110	77
Total		561	296

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

OFFSHORE ENGINEERING & CONSTRUCTION

General overview

The Saipem Group possesses a strong, technologically advanced and highly versatile fleet, as well as world class engineering and project management expertise. These unique capabilities and competences, together with a long-standing presence in strategic frontier markets, determined by fabrication yards in distinctive countries, such as Nigeria, Angola, Brazil, Saudi Arabia and Indonesia, ensure an industrial model that is particularly well suited to EPCI projects.

The most recently built vessel in the fleet is the pipelayer Castorone, mono-hulled and 330 m long and 39 m wide, it was designed for challenging large-diameter, deep-water pipelay projects, but it also possesses the flexibility and productivity necessary for effective deployment on 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 750 tonnes (up to 1,500 tonnes in conditions of pipe flooding using a special patented clamp), a highly automated firing line made up of 7 workstations, an articulated stinger for pipelaying in shallow and deep-water with an advanced control system, and the capacity to operate in extreme environments (Ice Class A0).

For the development of deep-water fields the FDS 2 is used, a 183 m long, 32 m 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 the 750 and 500 tonne capstan winches (both featuring a heave compensation system), the FDS 2 is suited to even the most challenging of deep-water projects. The other vessels that make up the fleet for the development of deep water reservoirs are the FDS, a special purpose vessel for the development of subsea fields in deep water, equipped with dynamic positioning and cranes for lifting up to 600 tonnes, as well as a system for laying pipes vertically to a depth of 2,000 meters and the Normand Maximus, a ship that is under long-term lease for its underwater installation features and umbilical laying and flexible lines, thanks to the 900 tonne crane

and the vertical tower that has a tension capacity of 550 tonnes. The preparation of the Normand Maximus for the laying of rigid lines can become a discriminating factor in the development of marginal fields.

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

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

Saipem also enjoys a strong position in the subsea market, thanks to its business line Sonsub, it uses highly sophisticated technologies, such as subsea ROVs (ROV and Hydrone) and technologies capable of carrying out complex deep-water pipeline operations.

At business line Sonsub they are also carrying out other activities involving the study and the industrialisation of process systems and subsea processing, such as SPRINGS that is used for the subsea treatment of sea water to be injected into wells and which was developed with Total and Veolia.

Finally, the Company is also active in the Leased FPSO sector, with the Cidade de Vitoria, and the Gimboa, operating in Brazil and Angola, respectively.

Market conditions

The reduction in investment by Oil Companies has led to a general fall in demand in 2016 and prospects for recovery in future years have been reduced and postponed in time. In 2016, the Offshore Engineering

& Construction market was affected by the difficult macroeconomic framework on all fronts. Investments in the sector by the oil companies accentuated the decrease, with a general reduction compared to 2015, which impacted on the main geographic areas such as the Gulf of Mexico, the Asia-Pacific and West Africa regions. The Middle East was confirmed as the most stable region, with a limited decline compared to 2015. The year 2016 was characterised by limited investments and as a result limited exploration success, with new discoveries in North-Western Europe and in West Africa, where the majority of the new fields are in ultra-deep waters.

Of the more important final investment decisions (FIDs) reached in 2016, we can report Zohr (Petrobel) in Egypt, with a fast-track development plan which envisages the start of production by the end of 2017, Greater Enfield (Woodside) in Australia, which should enter into production by 2020, Mad Dog II (BP) in the USA and Tenzig (Chevron) in Kazakhstan with development times estimated to be around 5 years.

During the course of the year, various operators have reconsidered their development plans, cancelling or deferring certain projects such as Fortuna Block R (Ophir Energy) in Equatorial Guinea and Johan Castberg (Statoil) in Norway, which could reach the final investment phase during 2017. Other cancellations include the development of the Buckskin and Moccasin (Chevron) fields in the Gulf of Mexico and the suspension of the Thunder Bird (Murphy Oil) project.

In the current scenario, numerous alliances and partnerships have been signed, the majority in the second half of the year. This demonstrates that the increasing collaboration in terms of knowledge and technology has a significant strategic value with the goal of lowering the break-even point of investments.

2016 was a difficult year for the subsea development market, which has shrunk further and significantly compared to 2015. The most active region in 2016 in terms of awards of projects was the Mediterranean, due to the intense activity in Egypt, thanks to projects such as Zohr (Petrobel), West Nile Delta (BP) and Pharaonic Atoll (PHPC). In absolute terms, Africa and Europe were the areas where the demand for subsea developments was most concentrated.

The demand for pipelines dropped significantly in 2016, causing a resizing of operations of contractors, some of which opted for the retirement and dismantling of less competitive vessels in order to reduce costs. Uses of vessels have seen a general downward trend, in the deep-water segment in particular, caused by new operating equipment

becoming operational. The fall in activity was felt most in Europe, the Middle East and Africa. Asia-Pacific saw the concentration of the highest volumes of operations, especially in shallow water developments.

For large diameter pipelines, in the Mediterranean attention must be drawn to the awarding of the contract for the construction of the offshore section of the Trans Adriatic Pipeline (TAP) for the transportation of gas between Albania and Italy via the Adriatic Sea and the awarding of the TurkStream (Gazprom), which will transport Russian gas across the Black Sea to Turkey.

As for the installation of fixed platforms, 2016 saw a further decline in activity level. Only one large-scale fixed platform was installed in the Peregrino C field, operated by Statoil, while other installations primarily involved smaller platforms in Asia-Pacific, including Zawtika I (PTTEP) in Myanmar and Weizhou (CNOOC) in China, Saudi Arabia (Hasbah) and Thailand (Bongkot). Some investment decisions were reviewed by oil companies: the Block B project operated by Phu Quoc (POC) in Vietnam was deferred for a few years, while Statoil cancelled the order with DSME for the construction of a platform for the Bressay field in the United Kingdom.

As regards the FPSO segment, in 2016 demand was further weakened and operators postponed or cancelled various investment decisions with the consequence that there were no orders of FPSO vessels during the year. Petrobras decided to postpone the awarding of the two FPSOs in the Pre-Salt Libra and Sepia developments in Brazil to 2017, while Shell will award the FID of the Penguins FPSO in the North Sea in 2017, rather than at the end of 2016. At the end of 2016 Chevron cancelled the FPSO order for the Rosebank project in the North Sea and will launch a new call for tenders at the beginning of 2017. Asia-Pacific continues to be the region recording the greatest demand for FPSOs: Husky CNOOC is considering an FPSO for the development of the MDA/MBH gas fields in Indonesia, while Repsol is finalising the investment decision for the Ca Rong project in Vietnam which envisages the involvement of both a leased FPSO and a Tension Leg Platform.

There were no new contract awards in the FLNG segment for 2016, and many initiatives are still in the feasibility/FEED stage. It is estimated that only two projects will be approved by 2020: Eni obtained approval from the Mozambique government for the Development Plan for the Coral discovery offshore Mozambique, while Delfin FLNG, the first FLNG development in the United States, obtained environmental impact authorisations and the plant operations are expected for

2020. In Equatorial Guinea, Ophir Energy evaluated the possibility of reaching the final investment decision for the Fortuna FLNG project in the first half of 2017 rather than at the end of 2016.

New contracts

The most significant contracts awarded to the Group during 2016 were:

- for BP, in the framework agreement for new activities relating to the T&I Shah Deniz 2 project, involving the transportation and installation of jackets, topsides, subsea production systems and subsea structures for stage 2 of the Shah Deniz field development project;
- for Trans Adriatic Pipeline AG, an EPCI contract within the Trans Adriatic Pipeline project, encompassing the installation of a pipeline for the transportation of gas between Albania and Italy through the Adriatic Sea;
- for Hywind Scotland, in the framework of the Hywind Scotland project, a contract for the lifting and installation of floating offshore wind turbines;
- for Petrobel, an EPCI contract for the first development phase of the Zohr gas field project, the field located off the Egyptian coast in the Mediterranean Sea. The scope of work encompasses the installation of a gas export trunkline and service trunklines, as well as EPCI work for the development in deep waters of 6 wells and the installation of umbilical cables;
- for BP Berau Ltd, a contract relating to the Tangguh LNG Expansion project, which encompasses the engineering, procurement, construction and installation of two unmanned platforms and subsea pipelines;
- for Saudi Aramco, as part of the framework agreement in force up to 2021 for activities in Saudi Arabia. The two contracts within the framework of the Marjan Zuluf 7 decks and Safaniya 10 jackets & 9 decks projects, involve, respectively, the development of the Marjan, Zuluf and Safaniya fields located in the Arabian Gulf, among the most significant offshore fields in the region. These contracts include the design, engineering, procurement, construction, installation and commissioning of subsea systems and also include the laying of pipelines, subsea and umbilical cables, platform decks and jackets. The two orders also involve additional maintenance and dismantling works on the existing platforms already operating in the fields.

Capital expenditure

Capital expenditure in the Offshore Engineering & Construction sector mainly

related to the maintenance and upgrading of the existing vessels. In particular, as regards the pipe-laying vessel Castorone, investments have been aimed at increasing production capacity and efficiency.

Work performed

The biggest and most important projects underway or completed during 2016 were as follows.

In Saudi Arabia, for Saudi Aramco:

- installation work has been completed on the **Al Wasit Gas Program** for the development of the Arabiyah and Hasbah offshore fields. The contract encompassed the engineering, procurement, fabrication and installation of fifteen fixed platforms in addition to an export pipeline, offshore pipeline, subsea and control cables. Operations are also completed under the same contract supplementing the scope of work with the engineering, procurement, transport, installation and commissioning of 2 trunklines in the Arabiyah and Hasbah fields;
- installation work finished on the **Marjan Zuluf** contract that included engineering, procurement, fabrication, transport and installation of new offshore facilities, including three platforms, three jackets and associated pipelines and subsea cables;
- the engineering and procurement activities have started for the **Safaniya 10 Jackets & 9 Decks** and **Marjan Zuluf 7 Decks** projects entered into as part of the framework agreement with Saudi Aramco;
- activities continued under the **long term agreement ARBI 20/23** for the engineering, procurement, construction, transport and installation of structures, platforms and pipelines. The procurement phase has been completed while the fabrication phase continues;
- in the framework of the **Karan** project, work is underway involving the engineering, procurement, fabrication, transportation and installation of offshore facilities including an observation platform, a wellhead production deck module, two auxiliary platforms and a pipeline;
- the fabrication activities are in progress for the **Abu Safah** contract, which involves the engineering, procurement, fabrication, transport and installation phases for the construction of two jackets, two decks, flexible pipelines and composite cables in the field.

In Indonesia:

- for BP Berau Ltd, the engineering and procurement activities have begun for the **Tangguh LNG Expansion** project. The project envisages the installation of two unmanned platforms and subsea pipelines;

- engineering, procurement and fabrication works have been completed for Eni Muara in Indonesia and fabrication activities are in the final stages on the **Jangrik** EPCI project. The scope of work includes engineering, procurement, fabrication of the FPU (Floating Production Unit) and the installation of a mooring system, as well as hook-up, commissioning and assistance to the start-up. During the year the installation for the mooring lines was also completed, which will be connected to the FPU.

Pipelaying work has been completed in Australia for Inpex on the **Ichthys LNG** project, which consisted of the engineering, procurement, construction and installation of a subsea pipeline connecting the offshore central processing facility to the onshore processing facility in Darwin.

In West Africa:

- work finished for Total Exploration and Production on the **GirRI (Girassol Resources Initiatives)** contract, in Block 17 in Angola, which encompassed engineering, procurement, fabrication, installation and commissioning of changes to the topside of the pumping system on the FPSOs Girassol and Dalia;
- for Total, in Angola, work on the conversion of the hulls and fabrication of topsides modules are underway on the **Kaombo** EPCI project, which encompasses engineering, procurement and commissioning of two FPSO vessels;
- fabrication work is underway for Total Upstream Nigeria Ltd on the EPCI contract for the subsea development of the **Egina** field. The initial installation work was completed during the year. The scope of work includes engineering, procurement, fabrication, installation and pre-commissioning of subsea oil production and gas export pipelines, flexible jumpers, and umbilicals;
- work has been completed for Cabinda Gulf Oil Co Ltd (CABGOC), in Angola, on installation and pre-commissioning activities on the **Mafumeira 2** project. The contract comprised services of engineering, procurement, fabrication, installation and pre-commissioning of URF (umbilical, riser and flowline) facilities and export pipelines;
- work finished for Cabinda Gulf Oil Co Ltd (CABGOC), in Angola, on the EPCI 3 contract which encompassed the engineering, procurement and pre-fabrication activities for subsequent offshore modifications and tie-ins on the existing **Mafumeira Norte** platform and the future **Mafumeira Sul** production platforms;
- on behalf of Eni Angola, installation continues on the **East Hub Development** project, which encompasses the provision

of 5 flexible risers and 20 km of rigid flowlines, as well as the installation of SURF facilities which include umbilical sections, rigid spools, well jumpers and 14 PLETs.

In Kuwait, for the Kuwait National Petroleum Corp (KNPC), work is underway in the framework of the construction of the new **Al-Zour** refinery, in joint venture with Hyundai Engineering & Construction and SK Engineering & Construction. The project encompasses the design, procurement, construction, pre-commissioning and assistance during commissioning tests, start-up and performance check for solid object management pier, pelletisation of flowlines for the transportation of sulphur, subsea discharge lines, a construction port zone, an island 17 km offshore and a small naval port.

In the North Sea:

- on behalf of Statoil, activities continue on the **Johan Sverdrup Export Pipeline** project, which encompasses the installation of a gas pipeline and an oil pipeline for the Mongstad refinery;
- for Dong Exploration & Production, the client halted work early on the **Dong Hejre** project for convenience;
- for Hywind Scotland, the transport, installation and replacement activities of a crane as part of **Hywind Scotland** project are in progress;
- for Dong Exploration & Production, the activities were started for the **Hornsea Wind Power A/S** project which involves the transport and installation of offshore platforms.

Again in the area of the North Sea, with the use of the semi-submersible vessel Saipem 7000:

- work is complete for Det Norske Oljeselskap ASA on a contract encompassing the transportation and installation of the **Ivar Aasen jacket** and the **topside** in the Norwegian sector of the North Sea;
- for Statoil, as part of the **Mariner Topside** project, following the installation of a deck the client decided to suspend and postpone the works to 2017;
- for Statoil, with the installation of the topside, the activities were concluded for the **Dagny Gina Krog** project.

In Azerbaijan, work continued for BP on the **T&I Shah Deniz 2** contract involving the transportation and installation of jackets, topsides, subsea production systems and subsea structures for stage 2 of the Shah Deniz field development project. Within the Framework Agreement for Phase 2 of the project, work commenced on the call-off 007 contract encompassing the transportation and installation of production systems and subsea facilities, the laying of optical fibre cables and production umbilicals, start-up, supply of the

crew and operational management of the new vessel, support for the vessel and, from 2017, management of a maritime base.

In Egypt, for Petrobel, the fabrication activities began for the **Zohr** project, encompassing the engineering, procurement, construction and the installation of a gas export pipeline and service pipelines, as well as works for the development of six wells in deep waters and the installation of umbilical cables.

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

In Kazakhstan:

- for the North Caspian Operating Co (NCOC) and for the **Installation pipelines** project, work continued for the construction of two pipelines, which will connect D island in the Caspian Sea to the Karabatan onshore plant. The scope of work includes the engineering, the procurement of the welding materials, the conversion and the preparation of vessels, the dredging, the installation, the burial and the pre-commissioning of the two pipelines;
- work continued for Agip Kazakhstan North Caspian Operating Co NV on the contract for the **EP Clusters 2 and 3** project in the framework of the Kashagan field development. The contract includes services of engineering, procurement, fabrication, and transportation of three topside production manifold modules. The EPC 2 module was completed and will be delivered during 2017;
- work continued for North Caspian Production Operations Co BV on the **Major Maintenance Services** project. The contract encompasses the provision of maintenance and services for offshore and onshore rigs and should terminate in 2018.

In the Gulf of Mexico, for Pemex, in the framework of the project for the development of the **Lakach** field, during the year work continued on engineering and procurement, despite the fact that, in April, the client suspended the project for convenience. Activities, which include engineering, procurement, construction and installation of the system connecting the offshore field with the onshore gas conditioning plant, should recommence in the second half of 2017 in compliance with a new contract currently being defined.

In Brazil, for Petrobras:

- work has been completed on the **Sapinhoà Norte and Cernambi Sul** project, which

encompassed services of engineering, procurement, fabrication, installation and pre-commissioning of the SLWR (Steel Lazy Wave Riser) for the collection system at the Sapinhoà Norte field, and of the FSHR (Free Standing Hybrid Risers) for the gas export systems at the Sapinhoà Norte and Cernambi Sul fields;

- work continued on the **Lula Norte, Lula Sul** and **Lula Estremo Sul** project, which includes services of engineering, procurement fabrication and installation of three subsea pipelines and two gas export manifolds.

Work has been suspended for PDVSA in Venezuela while awaiting payment on the part of the client for work on the construction of the **Dragon - CIGMA** project involving the transportation and installation of a gas pipeline which will connect the Dragon gas platform to the CIGMA complex.

In Panama, for PSA (Port Singapore Authority), the activities continue for the extension of the facilities as part of the **Panama Phase-2** project, which involves the design and construction of the wharf in the port of Panama.

In the Principality of Monaco, for Bougyes Travaux Publics, as part of the **Ansie du Portier** project, the feasibility studies continue for the towing and lowering of the caissons in the sea and the preliminary operations for their installation.

In Italy:

- for Trans Adriatic Pipeline AG, for **Trans Adriatic Pipeline** project, the engineering work began for the installation of a pipeline for the transportation of gas between Albania and Italy via the Adriatic Sea;
- for Eni Exploration & Production, in the framework of the **Campagna Mare 2015**, work was completed on the Clara North West platform which had been postponed in accordance with the client until 2016.

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

- for Petrobras, the **FPSO Cidade de Vitoria**:
 - (i) carried out operations as part of an eleven-year contract with Petrobras on the second phase of development of the Golfinho field, situated off the coast of Brazil at a water depth of 1,400 metres;
 - (ii) in the framework of the EPC project for plant modifications, targeted at increasing the capacity of production water treatment;
- the **FPSO Gimboa** carried out operations on behalf of Sonangol P&P under a contract for the provision and operation of an FPSO unit for the development of the Gimboa field, located in Block 4/05 offshore Angola, at a water depth of 700 metres.

Offshore fleet at December 31, 2016

Saipem 7000	Self-propelled, semi-submersible, dynamically positioned crane and pipelay vessel capable of lifting structures of up to 14,000 tonnes and J-laying pipelines at depths of up to 3,000 metres.
Saipem FDS	Dynamically positioned vessel utilised for the development of deep-water fields at depths of over 2,000 metres. Capable of laying 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 laying pipes with a maximum diameter of 36" in J-lay mode with a holding capacity of up to 2,000 tonnes. Also capable of operating in S-lay mode and with a lifting capacity of up to 1,000 tonnes.
Castoro Sei	Semi-submersible pipelay vessel capable of laying large diameter pipe at depths of up to 1,000 metres.
Castorone	Self-propelled, dynamically positioned pipe-laying vessel operating in S-lay mode with a 120-metre long S-lay stern ramp composed of 3 articulated and adjustable stinger sections for shallow and deep-water operation, a holding capacity of up to 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.
Castoro Otto	Derrick pipelay ship capable of laying pipes of up to 60" diameter and lifting structures weighing up to 2,200 tonnes.
Saipem 3000	Mono-hull, self-propelled dynamically positioned, derrick crane ship, capable of laying flexible pipes and umbilicals in deep waters and lifting structures of up to 2,200 tonnes.
Bar Protector	Dynamically positioned, multi-purpose support vessel used for deep-water diving operations and offshore works.
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. The lifting capacities of the 2 crawler cranes are 300 and 1,800 tonnes, respectively. Presently fitted with a pipe laying ramp system.
Ersai 2	Work barge equipped with a fixed crane capable of lifting structures of up to 200 tonnes.
Ersai 3	Support barge with storage space, workshop and offices for 50 people.
Ersai 4	Support barge with workshop and offices for 150 people.
Bautino 1	Shallow water post trenching and backfilling barge.
Bautino 2	Cargo barge for the execution of tie-ins and transportation of materials.
Ersai 400	Accommodation barge for up to 400 people, equipped with gas shelter in the event of an evacuation due to H ₂ S leaks.
Castoro XI	Heavy-duty cargo barge.
Castoro 14	Cargo barge.
Castoro 15	Cargo barge.
S42	Cargo barge, currently used for storing the J-lay tower of the Saipem 7000.
S43	Cargo barge.
S44	Launch cargo barge, for structures of up to 30,000 tonnes.
S45	Launch cargo barge, for structures of up to 20,000 tonnes.
S46	Cargo barge.
S47	Cargo barge.
S 600	Launch cargo barge, for structures of up to 30,000 tonnes.
FPSO - Cidade de Vitoria	FPSO unit with a production capacity of 100,000 barrels a day.
FPSO - Gimboa	FPSO unit with a production capacity of 60,000 barrels a day.

The vessel Saibos 230 was divested on February 29, 2016.

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 and 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

In a market scenario featuring a falling oil price and the consequent reduction of investments by oil companies, awards in the Onshore Engineering & Construction segment (Upstream, Midstream and Downstream) were further weakened. This led the volume of EPC contracts awarded to the lowest level in the last 10 years. Given this scenario, services companies were forced to reorganise themselves to improve their processes and to seek greater efficiency and productivity in order to maintain a competitive position in an ever more challenging market. The segment which suffered most from the changed conditions was Upstream, because it is directly influenced by changes in the oil price. Midstream (Pipelines, LNG) which has the greatest exposure to decisions dependent on the energy policies of individual countries and features projects of massive scale, accounts for over half of market acquisitions in 2016. Downstream (Refining, Petrochemical and Fertilisers) which is more influenced by supply/demand policies related to products and the associated production margins than by the price changes of Brent, represents a significant portion of EPC projects awarded in 2016, with the majority contribution from Refining segment contracts. Worldwide, a consistent portion of EPC projects was awarded in Asia-Pacific (China, South Korea, Cambodia, Indonesia, Pakistan, Bangladesh, Australia and India), an area supported by the growth of internal demand

and the expansion of infrastructures, with activities distributed across almost all Onshore Engineering & Construction segments (Pipelines, Refining, LNG, Petrochemical and Upstream). North America (primarily the United States and Mexico), while reducing the total volume of investment because of the high production costs combined with a significant fall in the oil price, remains an area with significant volumes in the Onshore Engineering & Construction sector, supported by the abundance of unconventional raw materials.

Investments in North America are focused in the LNG, Pipelines, Fertiliser, Refining and Petrochemical segments. The Middle East (Saudi Arabia, Kuwait, Iraq and United Arab Emirates) represents an interesting area thanks to the policies associated with maintaining oil production (supply) and export, in spite of the reduced availability of funds of the national oil companies. There have been investments particularly in the Refining, LNG, Upstream and Pipelines segments. The CIS area (Russia and Azerbaijan), characterised by producing countries, helped by policies supporting exports, has seen the awarding of EPC contracts in the Pipelines, Refining, LNG, Petrochemical and Upstream segments. In North Africa (Egypt, Algeria and Morocco), investments have been made in the Upstream, Fertiliser and Petrochemical segments, but the value of contracts awarded remains below market expectations. In Europe (Greece and Holland, but also in Turkey, Italy, England, Croatia and Sweden, with smaller projects), investments have been made in the Pipelines and Refining segments. In South America (Argentina, Panama, Chile and Brazil) and Central Africa (Nigeria), there have been minor investments in the Refining, LNG and Pipelines segments.

The Upstream segment has been affected hard by the considerable reduction of investments by oil companies, caused by an excess of oil and gas supply compared to demand. The unfavourable market conditions have caused a postponement/delay of investment in new projects for the development of fields. The requirement to cover capacity lost through the continual decline of fields in production however remains unchanged with the search for new fields or, where possible, investments to improve the production of existing ones.

The Pipelines segment has only partly felt the crisis associated with the low cost of oil and

sees interesting EPC contracts being awarded. This results from the greater requirement for connection of the Russia and Caspian Sea areas with Europe and Asia and the significant investment in China and the Middle East (Saudi Arabia) for the improvement of the gas distribution network. Developments in the USA, intended primarily for the development of the internal network and expansion of the connection with Mexico, still remain below market expectations. The segment continues to be dominated by awards of contracts for pipelines for gas transport, and only to a lower extent for the transportation of oil or refinery products. The phenomenon is justified by a continuing abundance of available gas, in particular for those areas that are developing unconventional fields, which must necessarily be transported from the production fields to the markets of use.

The value of EPC contracts in the LNG segment is lower than the amounts of previous years, but still remains one of the leading segments in the Onshore Engineering & Construction sector. The main investments have been for contracts for the regasification plants, located in the Middle East (Kuwait) and Asia-Pacific (Pakistan, Bangladesh, India and China), but also in Europe (Croatia) and Central America (Panama), and contracts for the liquefaction plants in Asia-Pacific (Indonesia) and North America (USA) even if the investments for many of the EPC contracts awarded are still pending approval. In 2016, global production capacity of LNG grew with the opening of new liquefaction plants in North America and Australia. The segment was influenced by an abundant production capacity and a price for liquefied gas which will probably remain low in the medium- and long-term, and which anticipates a reduction of investment, in spite of the numerous projects announced. In addition, total investments in the Onshore regasification plants may be eroded by alternative choices in favour of Offshore solutions (FSRU).

The Refining segment maintains a leading role in Onshore Engineering & Construction, even if the values of contracts acquired in 2016 are down significantly for the second consecutive year. Important awards were made in 2016 in Asia-Pacific (Cambodia, South Korea), Middle East (Iraq, Arab Emirates and minor awards also in Saudi Arabia, Bahrain, Kuwait and Oman), North America (Mexico, USA), Europe (Holland), CIS (Azerbaijan) and North Africa (minor contracts in Algeria). Demand for oil products is growing and is mainly supported by the increase in consumption in the transport and petrochemicals sector, especially in non-OECD countries. But there has been a slowdown in demand growth as a result of a steady increase in efficiency,

development and the use of alternative fuels. While there was a decline in investment in the short to medium term, caused by a shift forward of some projects, the volume is still considerable and involves the totality of the geographic areas monitored.

The Petrochemical segment in 2016 saw the lowest values of EPC contracts awarded in the last 10 years. Some significant contracts were recorded in North Africa (Egypt), in Asia-Pacific (South Korea), the CIS area (Azerbaijan) and North America (USA). Awards of minor contracts also in the Middle East (Saudi Arabia, Arab Emirates). Investments in the segment are related to the trend of global demand for petrochemical products (in particular, ethylene, methanol, propylene) and are influenced by continual research into both conventional technologies, i.e. propane dehydrogenation (PDH) and non-conventional, from gas to propylene (GTP), from gas to olefins (GTO), from carbon to olefins (CTO), from methanol to olefins (MTO). Investments are also favoured by the continuous search for economies of scale and integration with refinery complexes.

In 2016, awards of new EPC projects in the Fertiliser segment were down whether compared with acquisitions during the last year or if compared with the average of recent years. The segment is however supported by awards of new contracts in North America (USA) and North Africa (Morocco, Egypt). This segment is affected by an abundant production capacity and a low price of products which does not favour further investment in the short term and penalises production by both the small plants and the old and not very efficient ones. A phenomenon which could lead to the closure of the most obsolete plants, rebalancing demand with supply, and stimulating the recovery of investment with the construction of more modern and efficient plants. The Fertiliser segment also features small-medium scale investment for expansion and upgrading of already existing plants.

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

New contracts

The most significant contracts awarded to the Group in 2016 were:

- for Ital Gas Storage (IGS), an EPC contract which envisages the development of natural gas storage plants in Cornigliano Laudense, in the province of Lodi. The plants will be connected to the Italian

- gas network, and in turn connected to the large national and European high pressure gas pipelines;
- for BP Berau Ltd, as part of the Tangguh LNG Expansion project, a contract which envisages the construction of an onshore LNG plant, auxiliary services, an LNG jetty and the associated infrastructure.

Capital expenditure

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

Work performed

The biggest and most important projects underway or completed during 2016 were as follows.

In Saudi Arabia:

- work continues for Saudi Aramco on two EPC contracts (Packages 1 & 2) relating to the **Jazan Integrated Gasification Combined Cycle** project for the generation of electricity to be undertaken at approximately 80 km from the city of Jazan, in southwestern Saudi Arabia. The Package 1 contract comprises the gasification, soot/ash removal, acid gas removal and hydrogen recovery units. The Package 2 contract includes six sulphur recovery units (SRU) trains and relevant storage facilities. The scopes of work of both packages include engineering, procurement, construction, pre-commissioning, assistance to commissioning and performance tests of the concerned facilities;
- work continued for Petrorabigh (a joint venture between Saudi Aramco and Sumitomo Chemical) on the contract for the Naphtha and Aromatics Package of the **Rabigh II** project, which encompasses the engineering, procurement and construction of two processing units: a naphtha reformer unit and an aromatics complex. Again for the Rabigh II project, in the first half of 2016 Saipem was awarded further additional works for new auxiliary systems within the industrial complex, including a vanadium treatment plant;
- for Saudi Aramco, work continues on the Complete **Shedgum - Yanbu Pipeline Loop 4&5** project, which includes detailed engineering, procurement of all materials, excluding the line pipe supplied by the client, construction, pre-commissioning and assistance with commissioning;
- for Saudi Aramco, work commenced on the **Khurais** EPC project that encompasses the

extension of onshore production facilities in the Khurais, Mazajili, Adu Jifan, Ain Dar, Shedgum and Qurayyah fields.

In the United Arab Emirates:

- construction work for the three product lines (shale gas, LNG and condensate) was completed as part of the project for Abu Dhabi Gas Development Co Ltd, for the development of the high sulphur content **Shah** field. The development project encompassed the treatment of 28 million cubic metres of gas a day from the Shah field, the separation of the sulphur from the gas, and the transportation of the gas product lines by pipeline to the national gas network in Habshan and Ruwais, in the north of the Emirate. The guarantee period has ended, and negotiations are still ongoing for the recognition of change orders and claims which emerged during project execution;
- work has been completed on a project for the Etihad Rail Co in Abu Dhabi, encompassing the engineering and construction of a **railway line** for the transportation of granulated sulphur, linking the natural gas production fields of Shah and Habshan (located inland) to the port of Ruwais.

In Kuwait:

- pre-commissioning activities were completed and commissioning activities began on the **BS 171** contract for Kuwait Oil Co (KOC), which encompassed the engineering, procurement and construction of a new booster station comprising 3 high- and low-pressure gas trains for the production of dry gas and condensate;
- work continued for the Kuwait National Petroleum Corp (KNPC) on the **Al-Zour Refinery**, Package 4, in joint venture with Essar Projects Ltd. The contract encompasses design, procurement, construction, pre-commissioning and assistance during commissioning tests, start-up and checks on the performance of tanks, related road works, offices, pipelines, piping support frames, water works and control systems for the Al-Zour refinery.

In Iraq:

- work for Fluor Transworld Services Inc and MorningStar for General Services Llc (ExxonMobil) on the **West Qurna** project is in the final stages. The contract comprises engineering, procurement, construction, pre-commissioning and commissioning of water treatment and conveyance infrastructure, a pipeline and a water injection system;
- for Basrah Gas Co (BGC) work on the recovery of the **Import & Storage LPG Terminal in Umm Qasr**, which encompassed inspection, engineering and construction targeted at securing the plant

and increasing its production capacity, has been completed.

In Indonesia, for BP Berau Ltd, work began for the engineering activities and the site was opened for the execution of the **Tanggung LNG Expansion** project, which involves the construction of an onshore LNG plant, auxiliary services, an LNG jetty and the associated infrastructure.

In Turkey, work is continuing for Star Refinery AS on the **Aegean Refinery** project, encompassing the engineering, procurement and construction of a new refinery with a marine terminal consisting of two import jetties and one export jetty.

In Nigeria:

- work continued for Dangote Fertilizer on the **Dangote** project for a new ammonia and urea production complex. Originally situated in Edo State, the plant was relocated by the client to the Lekki Free Trade Zone, Lagos State. The scope of work encompasses engineering, procurement and construction of two twin production streams and related utilities and off-site facilities;
- complex work is underway for Southern Swamp Associated Gas Solution (SSAGS) on the **Southern Swamp** contract, comprising engineering, procurement, construction and commissioning of compression facilities at four sites and of new gas central production facilities at one of the sites, which will treat the routed associated gas;
- work finished for Exploration and Production Nigeria Ltd (TEPNG) on the **Northern Option Pipeline** project, comprising engineering, procurement, construction and commissioning of a pipeline that will connect Rumuji to Imo River.

In Congo, the onshore plant of the **Litchendjili** project was completed and delivered to the client Eni Congo. The plant handles the separation and treatment of the hydrocarbons coming from the offshore Litchendjili platform for the production of gas and hydrocarbons for the Centrale Electrique du Congo.

In Italy:

- for Italgas Storage (IGS), work is underway on engineering and procurement for the **EPC Cornegliano Laudense Natural Gas Storage Plant** project encompassing the development of natural gas storage plants in Cornegliano Laudense, in the province of Lodi;
- for Rete Ferroviaria Italiana SpA (Ferrovie dello Stato Group), work finished on the contract for the detailed engineering, project management and construction of a 39 km section of **high-speed railway** line and of

an additional 12 km of interconnections with the existing conventional railway, along the Treviglio-Brescia section across the Milan, Bergamo and Brescia provinces, as well as all associated works, such as power lines, works to reduce road interference, road crossings and environmental mitigation. The railway line was inaugurated on December 10 and then opened to commercial transport;

- for Versalis, activities continue in relation to the **Versalis-Ferrara IT** EPC contract for the construction of a fourth production line to operate alongside three existing lines, in addition to increasing production capacity and upgrading the plant's outside battery limit auxiliary systems. The section of the project associated with the increase of production capacity of the existing lines, completed positively; the fourth production line will be completed by the end of 2017;
- for Eni Refining & Marketing, as part of the **Tempa Rossa** project, the activities are underway for the construction of the auxiliary systems and of two tanks for the storage of the crude oil coming from the Tempa Rossa field operated by Total.

In Poland, engineering work was completed for Polskie LNG on the **Polskie** contract for a re-gasification terminal on the northwest coast of the country, and delivered to the client during the reporting period.

The contract encompassed the engineering, procurement and construction of the regasification facilities, including two liquid gas storage tanks. Currently, residual contractual activities in progress involve providing support under guarantee which will conclude at the end of 2018 and supporting the client with operating the system which will complete in the first half of 2017.

In Canada, work finished for Canadian Natural Resources (CNR) on the **Hydrotreater Fase 3** and **SRU-SWC** project, which encompassed additional units for the Horizon refining complex.

In Mexico:

- work is underway for Transcanada (Transportadora de Gas Natural Norte - Noroeste) on the **El Encino** project, comprising engineering, procurement and construction of a pipeline from El Encino (Chihuahua State) to Topolobampo (Sinaloa State). Completion of the remaining 20 km of pipeline out of the total 540 is experiencing some difficulties as the client is having to free the work areas from the continual actions caused by the local communities;
- work continued for Pemex on the **Tula and Salamanca** contract for the construction of two desulphurisation units and two amine regeneration units to be built at two of the

client's refineries. The facilities will be built at the Miguel Hidalgo refinery, located 2,000 metres above sea level near the town of Tula and at the Antonio M. Amor refinery, located 1,700 metres above sea level near the town of Salamanca. The provisional acceptance certificate has been obtained for the two plants;

- for Fermaca Pipeline El Encino, work is underway on the EPC **Fermaca Compressor Station** project that

encompasses engineering, procurement, construction and support with commissioning of a new compression station in El Encino.

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

OFFSHORE DRILLING

General overview

At December 2016, the Saipem offshore drilling fleet consisted of fourteen vessels, divided as follows: seven deepwater units for operations at depths in excess of 1,000 metres (the drillships Saipem 10000 and Saipem 12000 and the semi-submersible drilling rigs Scarabeo 5, Scarabeo 6, Scarabeo 7, Scarabeo 8 and Scarabeo 9), two high specification jack-ups for operations at depths of up to 375 feet (Perro Negro 7 and Perro Negro 8), four standard jack-ups for activities at depths up to 300 feet (Perro Negro 2, Perro Negro 3, Perro Negro 4 and Perro Negro 5) and one barge tender rig (TAD). The fleet is completed by other minor units active offshore Peru. During the year the mid water semi-submersible Scarabeo 3 was sold due to the lack of prospects for its use in the short to medium term.

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

Market conditions

As mentioned previously in the paragraph relating to the evolution of the Strategic Plan 2017-2020, the negative phase of the market, which began in 2014, particularly affected 2016: the weakness of oil prices penalised the industry and specifically the medium term outlook changing forecasted recovery from 2017 to beyond 2018.

The difficult times in the market were reflected primarily in the investments of oil companies: the downward trend of spending on the acquisition of drilling services was accentuated, with a fall of around 30% compared to 2015, a year which itself had already seen a significant fall of more than 15% compared to the previous year.

Use trends have been decidedly downward, averaging below 70%; only the most technically modern units have managed to return higher use levels of the fleet which are only slightly higher than the general market average. As already occurred in 2015, the difficult phase led various oil companies to decide for early termination of contractual commitments undertaken in previous years with various drilling contractors.

This happened both in the shallow water segment and in deep water. The negative cycle in the Oil & Gas sector has also

continued to push various contractors into opting for the retirement and dismantling of their oldest vessels: to the 40 units returned in 2015 due to lack of activities and prospects in the medium term, in 2016 a further 41 units can be added, bringing the offer of drilling rigs down by 12% since the beginning of the crisis. The retirement activities affected floaters in particular, where the fall in supply was more than 20%. The market crisis affected this segment in particular in the older plants with 30 years and more of operation, but cases of retirement were also recorded for more recent drilling vessels constructed towards the end of the 90s and 2000s. Even the trends in the rates for contracts assigned in the period has continued to be conditioned by a general weakness. Ultra deep water has been established at \$200 to \$250 thousand per day and the high spec jack-ups have recorded values below \$100 thousand per day.

On account of the significant number of orders awarded in previous orders, new offshore drilling rig construction levels remained healthy, with 150 new rigs under construction (104 jack-ups, 16 semi-submersibles and 30 drillships), 127 of which do not yet have a contract for their use. 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 2017-2018 and beyond. The significant number of units that will be delivered in the short to medium term, and the already mentioned retirement that has affected a part of the existing fleet, represent structural changes in the offshore drilling that will have significant effects in the medium to long term.

New contracts

The most significant contracts awarded to the Group during 2016 were:

- for Eni, a contract to complete a well off the coast of Portugal using the drillship Saipem 12000;
- for Eni Norge, the extension until October 2017 of the contract for the use of the ultra deep water semi-submersible rig Scarabeo 8 for operations in the Sub-Arctic area of the Barents Sea.

Capital expenditure

Investments during the reporting year concerned class reinstatement and work to

ensure the compliance of vessels with international regulations and client requirements. The plants subject to maintenance work were the semi-submersible platforms, Scarabeo 8 and Scarabeo 9.

Work performed

In 2016, Saipem's offshore units drilled 92 wells (of which 47 workovers), totalling 79,540 metres.

The fleet was deployed as follows:

- deep water vessels: the drillship **Saipem 12000** continued the standby period in Namibia which began following the decision in October 2015 by Total to discontinue works being carried out in Angola; the downtime was used to optimise the plant; the drillship **Saipem 10000**, as part of a multi-year contract with Eni, continued operations in Egypt; the semi-submersible **Scarabeo 9** operates in Angola for Eni as part of a multi-year contract; in August, the vessel was transferred to Las Palmas, in the Canaries, where it then underwent a period of maintenance expected to complete in the first quarter of 2017; the semi-submersible **Scarabeo 8** continued operating in the Norwegian sector of the Barents Sea for Eni Norge and underwent, following a standby period compensated by the client, maintenance interventions during the final quarter of the year; the semi-submersible **Scarabeo 7** continued to operate in Indonesia for Eni Muara Bakau as part of a multi-year contract; the semi-submersible **Scarabeo 6** concluded operations in Egypt for Burullus and maintenance activities and then was cold stacked pending being awarded additional works; the semi-submersible **Scarabeo 5** continued the standby period in Norway until July following the decision taken by the client Statoil to suspend operations from September 2015; the standby period, compensated at the suspension rate, was used for completion of the optimisation activities for the vessel in view of the resumption of operations that then happened in the second half of the year;
- mid water vessels: the semi-submersible **Scarabeo 3** was sold following the cancellation of the projects in the Mediterranean area where the vessel could potentially be used;
- high specification jack-ups: the **Perro Negro 8** has continued activities for the National Drilling Co (NDC) in the Arab Emirates; the **Perro Negro 7** has continued to operate for Saudi Aramco offshore Saudi Arabia;
- standard jack-ups: the **Perro Negro 2** continued operations in the Arab Emirates for the National Drilling Co (NDC) until August when, due to the adverse market conditions, the client decided to terminate the contract in advance, paying the contractual penalties; the plant was then transferred to the Saipem base in Sharjah; the **Perro Negro 3** concluded operations in the Arab Emirates in April again for the National Drilling Co (NDC) and was laid up in the Saipem base in Sharjah; the **Perro Negro 5** continued activities in Saudi Arabia for Saudi Aramco; **Perro Negro 4** continued to operate in the Red Sea for Petrobel;
- other operations: operations of the tender assisted (**TAD**) vessel continued in Congo for Eni Congo until September; the plant was then transferred to Namibia for a period of suspension compensated by the client; the time spent in standby will subsequently be recovered on the resumption of operations, leading to a contract extension of the same term; activities were carried out in the offshore of Peru for Pacific Offshore Energy and Savia; minor vessels operating in this area were sold during the second part of the year.

Utilisation of vessels

Vessel utilisation in 2016 was as follows:

Vessel	(No. of days)	December 31, 2016	
		sold	non operating
Semi-submersible Scarabeo 3 ⁽¹⁾		-	315 ⁽²⁾
Semi-submersible Scarabeo 5		350	16 ⁽³⁾
Semi-submersible Scarabeo 6		14	352 ^{(2) (4)}
Semi-submersible Scarabeo 7		365	1 ⁽³⁾
Semi-submersible Scarabeo 8		305	61 ⁽⁴⁾
Semi-submersible Scarabeo 9		324	42 ⁽⁴⁾
Drillship Saipem 10000		364	2 ⁽³⁾
Drillship Saipem 12000		366	-
Jack-up Perro Negro 2		366	-
Jack-up Perro Negro 3		119	247 ⁽²⁾
Jack-up Perro Negro 4		364	2 ⁽³⁾
Jack-up Perro Negro 5		314	52 ^{(3) (4)}
Jack-up Perro Negro 7		366	-
Jack-up Perro Negro 8		366	-
Tender Assisted Drilling Barge		366	-

(1) Vessel sold on November 10, 2016.

(2) The vessel was not under contract.

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

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

ONSHORE DRILLING

General overview

At December 2016, Saipem's onshore drilling rig fleet was composed of 100 units, of which 96 are owned by Saipem and 4 by third parties but operated by Saipem. The areas of operations were Latin America (Peru, Bolivia, Colombia, Ecuador, Chile and Venezuela), the Middle East (Saudi Arabia), Kazakhstan and Africa (Congo and Morocco).

Market conditions

As mentioned previously in the paragraph relating to the evolution of the Strategic Plan 2017-2020, during the year, the volume of investments by oil companies for the acquisition of onshore drilling services continued to record a negative trend, with a fall in the markets in which Saipem operates by more than 25% compared to 2015, a year itself strongly affected by a fall of spending by around 20% compared to the previous one. The United States is among the areas that recorded the most significant fall-off in activities, with a reduction in investments of 40% compared with the previous year. The record levels of storage seen in the country and a milder winter than usual contributed further to creating the conditions for depressing the demand for drilling services. The bottom of the negative curve was reached between the months of June and August with around 400 operating plants, some way from the 2,000 active vessels reached in 2014 before the start of the crisis. Thanks to a gradual resumption of activities in the shale segment (which brought the number of operating plants to grow to around 600), in the second part of the year production in the country grew until stabilising at around the values prior to the record levels reached in 2014.

Latin America, historically an oil price sensitive area, recorded a noteworthy fall-offs in activity, quantifiable as more than 40% down compared to 2015. The reductions recorded in other regions were more contained. The only exception, as in the previous financial year, is the Middle East, an area which, despite the pressure on leasing rates, has in fact continued to show substantial stability in the level of activities, thanks to Saudi Arabia (confirmed as the market of reference in the region) and to countries that have launched significant programmes for growth, such as Kuwait.

New contracts

Among the most significant contracts awarded during the year are the following:

- for Saudi Aramco, the extension of the lease contract, for a further 3 years, for 16 drilling stations that are already operational in Saudi Arabia;
- for Sound Energy, the extension of the contract, by four months, for providing drilling and well services for onshore wells in Morocco;
- for YPBF Andina, the new leasing contract for one year for a plant in Bolivia;
- for Pan American Energy, the extension of the contract for a total of twenty-six months, which will involve an hydraulic plan in Argentina.

Capital expenditure

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

Work performed

During 2016, 189 wells were completed (14 of which were work-overs), for a total of 597,736 metres drilled.

Saipem operated in many Latin American countries: in **Peru** activities were carried out on behalf of various clients (including Cepsa, CNPC, Pacific Rubiales, Repsol and GMP) and Saipem has been operating in the country with eighteen units (sixteen owned and two provided by the client). during the second half of the year the fleet in Peru was reduced after the sale of two plants due to the lack of prospects for their use in the short term. Three rigs were used in **Bolivia** for YPBF Andina, Pluspetrol and Repsol; preparation also began on an additional rig from Colombia for operations that will begin the following year. Work was carried out in **Chile** for ENAP and Enerco using two rigs; the unit contracted with Enerco was also used in farm-out during the first part of the year for MRP. Two units in the country were used to prepare future operations (existing or future contracts) that will be carried out in Argentina in the following

year. In **Colombia**, Saipem operated with six rigs and carried out activities for Equion. As mentioned previously, one rig was moved to Bolivia during the year based on activities planned for 2017. Four units were sent to **Ecuador** and Saipem operated in the country for Agip Oil. In **Venezuela**, Saipem progressively reduced operations of 27 rigs in the country until complete shut down while waiting for back payment methods to be defined and the new method for working with the client for possible future activities. During the second part of the year Saipem proceeded with the sale of two rigs in the country, bringing Saipem's total to 25 units. Additionally, two rigs usually located in South America were transferred to the United States for maintenance.

In **Saudi Arabia**, Saipem operated with twenty-eight rigs that operated for Saudi Aramco within the framework of contractual commitments.

In **Kuwait**, during the month of December, the first of two units that Saipem, under an existing contract, was committed to providing to KOC was completed; operations will launch at the beginning of 2017. During the year preparation of the second rig began (from the Saipem fleet stationed in Kazakhstan) in view of beginning operations in the second half of 2017.

In **Kazakhstan**, Saipem operated for various clients (such as KPO, Agip KCO and Zhaikmunai) with four rigs supplied by a partner and five owned by Saipem. During the

year a rig was returned to the partners, while, as mentioned above, one of the rigs owned by Saipem was moved to the Middle East to begin preparations in Kuwait for the already acquired KOC.

In Africa, Saipem operated in the **Congo** and in **Morocco**. In the first case for Eni Congo SA managing a unit owned by the client. In the second case with a Saipem owned rig from Mauritania which started operations in the month of April for Sound Energy.

In **Italy** operations continued on the preparation of a rig for work for Eni. Work was originally planned to begin for the first half of 2016 and was subsequently postponed by the client to 2017. This delay is, in any case, remunerated by a stand-by instalment.

Utilisation of rigs

Average utilisation of rigs in the third quarter of 2016 was 64.1% (90.5% in the same quarter of 2015). As of December 31, 2016, Company-owned rigs amounted to 96 (at year end 2016, 4 were plants were scrapped), located as follows: 28 in Saudi Arabia, 26 in Venezuela, 18 in Peru, 4 in Bolivia, 4 in Colombia, 4 in Kazakhstan, 4 in Ecuador, 2 in Kuwait, 1 in Argentina, 1 in Chile, 1 in the Congo, 1 in Italy and 1 in Tunisia. In addition, 2 rigs owned by third parties were used in Peru, 1 third-party rig was used in Congo, and 1 in Chile.

FINANCIAL AND ECONOMIC RESULTS

Results of operations

The Saipem Group's 2016 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. The analysis of performance by business unit is based on the adjusted results.

Saipem Group - Income statement

2015	(€ million)	2016
11,507	Net sales from operations	9,976
5	Other income and revenues	9
(8,782)	Purchases, services and other costs	(7,294)
(2,222)	Payroll and related costs	(1,782)
508	Gross operating margin (EBITDA)	909
(960)	Depreciation, amortisation and write-downs	(2,408)
(452)	Operating result (EBIT)	(1,499)
(244)	Net finance expense	(154)
34	Net income from investments	18
(662)	Result before income taxes	(1,635)
(127)	Income taxes	(445)
(789)	Result before non-controlling interests	(2,080)
(17)	Net result attributable to non-controlling interests	(7)
(806)	Net profit (loss) for the year	(2,087)

Revenues from operations amounted to €9,976 million, down by 13.3% compared to 2015 due to the decrease in operations in the Offshore E&C and Drilling, as detailed later in the analysis by business segment.

Gross operating result (EBITDA) totalled €909 million, an increase compared to €508 million in 2015.

The **operating result (EBIT)** totalled -€1,499 million compared with the -€452 million reported in 2015. The deterioration was due to write-downs resulting from the rationalisation of assets, impairment tests and drilling trade receivables write-downs for a total of €2,081 million, €1,724 million of which in depreciation, amortisation and impairment.

Net finance expense decreased by €90 million compared with 2015, mainly due to the decrease in average net borrowings.

Net revenue on equity investments amounted to €18 million, €16 million less than in 2015 which included the earnings from the sale of the holdings in Fertilizantes Nitrogenados de Oriente CEC and Fertilizantes Nitrogenados de Oriente SA.

The **result before income taxes** amounted to -€1,635 million.

Income taxes amounted to €445 million and include the write-down of deferred tax assets for a total of €232 million.

The **net loss** for 2016 amounted to €2,087 million, versus net loss of €806 million in 2015.

2015	(€ million)	2016
(452)	Operating result (EBIT)	(1,499)
298	Special items	2,081
(154)	Adjusted operating result (EBIT)	582

2015	(€ million)	2016
(806)	Net profit (loss) for the year	(2,087)
298	Special items	2,313
(508)	Adjusted net profit (loss) for the year	226

The loss for the year, equal to €2,087 million (€806 million in 2015), compared to adjusted net income was affected by the following special items:

- write-downs of assets from the strategic plan and subsequent impairment tests: €2,118 million (€198 million in 2015);
- write-downs of drilling credits: €171 million (€100 million in 2015);
- reorganisation expenses: €24 million.

Write-downs of assets from the strategic plan and subsequent impairment tests are described as follows:

- in Offshore Drilling, two jack-ups and one semi-submersible platform, and their inventories, have been completely written off because they are not expected to be used in the strategic plan; moreover some vessels, mainly semi-submersible platforms, were partially written down as a result of impairment test. Impact for a total of €1,183 million;
- in Onshore Drilling, some drilling rigs and related inventories were fully or partially written off because they are not expected to be used in the strategic plan is expected

to be null or limited. The impact totals €189 million;

- in Offshore E&C, a vessel and its inventories have been fully written down because it is not expected to be used in the strategic plan, an FPSO has been partially written down as a result of the impairment test, and for one FPSO its useful life was revised by making it coincide with the end of the contract, due to the reduced possibility of renewal. In addition, some fabrication sites with little prospects of use in the strategic plan were partially written down. The impact totals €361 million;
- in Onshore E&C, a fabrication yard and the related inventories were fully written down due to the absence of prospects of use in the strategic plan, and a logistics base was partially written down. The impact totals €59 million;
- due to the above mentioned write downs, as well as the reduction of operations and margins in some countries, related tax assets were written down. The impact totals €326 million.

Adjusted EBIT reconciliation - EBIT

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Total
EBIT adjusted	379	5	234	(36)	582
Impairment/asset write-down of assets	341	58	1,170	155	1,724
Inventory write-down	20	1	13	34	68 ⁽¹⁾
Tax asset write-down	17	77	-	-	94 ⁽¹⁾
Receivables write-down	-	-	17	154	171 ⁽¹⁾
Restructuring charges	9	11	2	2	24 ⁽¹⁾
Total impairment	(387)	(147)	(1,202)	(345)	(2,081)
EBIT	(8)	(142)	(968)	(381)	(1,499)

(1) €357 million total: adjusted EBITDA reconciliation is €1,266 million compared to the EBITDA is €909 million.

Saipem Group - Adjusted income statement

2015	(€ million)	2016
11,507	Net sales from operations	9,976
5	Other income and revenues	9
(8,682)	Purchases, services and other costs	(6,961)
(2,222)	Payroll and related costs	(1,758)
608	Adjusted gross operating margin (EBITDA)	1,266
(762)	Depreciation, amortisation and write-downs	(684)
(154)	Adjusted operating result (EBIT)	582
(244)	Net finance expense	(154)
34	Net income from investments	18
(364)	Adjusted result before income taxes	446
(127)	Income taxes	(213)
(491)	Adjusted result before non-controlling interests	233
(17)	Net result attributable to non-controlling interests	(7)
(508)	Adjusted net profit (loss) for the year	226

Adjusted operating result and costs by function

2015	(€ million)	2016
11,507	Net sales from operations	9,976
(11,110)	Production costs	(8,741)
(198)	Idle costs	(316)
(118)	Marketing costs	(104)
(14)	Research and development costs	(19)
(22)	Other operating income (expenses)	(24)
(199)	General and administrative expenses	(190)
(154)	Adjusted operating result (EBIT)	582

The Saipem Group achieved in 2016 **net sales from operations** which amounted to €9,976 million, a decrease of €1,531 million compared to 2015, due to a reduction in the Offshore E&C and Drilling sectors and in the analysis as detailed below by business sector. Production costs (which include direct costs of sales and depreciation of vessels and equipment) amounted to €8,741 million, representing a decrease of €2,369 million compared with 2015, reflecting the fall in revenues.

The costs of inactivity, amounting to €316 million increased by €118 million compared to 2015, mainly due to the inactivity of Offshore E&C fleet vessels S7000, Castorone, Castoro 2, Castoro 6 and Castoro 8, and due to the

inactivity of the Perro Negro 3, Scarabeo 6 and Scarabeo 3 of the Offshore Drilling fleet and the Onshore Drilling rigs in South America. Marketing costs, thanks to the bidding costs rationalisation, were €104 million, down €14 million compared to 2015.

Research and development costs included in operating costs were equal to €19 million, an increased of €5 million.

General and administrative expenses amounted to €190 million, representing a decrease of €9 million.

Net other operating income (expenses) of €24 million, an increase of €2 million compared to 2015.

The breakdown by business sector is as follows:

Offshore Engineering & Construction

2015	(€ million)	2016
6,890	Net sales from operations	5,686
(6,401)	Cost of sales	(5,057)
489	Adjusted gross operating margin (EBITDA)	629
(297)	Depreciation, amortisation and write-downs	(250)
192	Adjusted operating result (EBIT)	379
(138)	Impairment/write-down and reorganisation expenses	(387)
54	Operating result (EBIT)	(8)

Revenues for 2016 amounted to €5,686 million, down 17.5% compared to 2015. This was mainly attributable to lower volumes recorded in the Middle East, In Australia and Russia, which were mostly offset by higher volumes registered in Azerbaijan and Kazakhstan.

The cost of sales amounts to €5,057 million with a decrease of €1,344 compared to 2015 reflecting the fall in revenues.

Depreciation decreased by €47 million compared to reporting in 2015, due to the lower contribution by half of a vessels whose useful life ended in June 2015, of the vessels written down in 2015 and a base whose original value has been fully amortised.

The adjusted operating result (EBIT) in 2016 amounted to €379 million, or 6.7% of

revenues, compared to €192 million in 2015, or 2.8% of revenues. The improvement is mainly attributable to the higher contribution made by the projects running in Kazakhstan and Azerbaijan. The adjusted gross operating result (EBITDA) stood at 11.1%, compared with 7.1% in 2015.

The adjusted operating result (EBIT) in 2016, a loss of €8 million was affected by the complete write-down of a vessel and the its inventories because it was not expected to be used in the strategic plan, by an FPSO was partially written down as a result of the impairment test, and by one FPSO whose useful life was revised by making it coincide with the end of the contract, due to the reduced possibility of renewal and by the write-down of tax credits, as well as reorganisation.

Onshore Engineering & Construction

2015	(€ million)	2016
2,788	Net sales from operations	2,844
(3,442)	Cost of sales	(2,803)
(654)	Adjusted gross operating margin (EBITDA)	41
(39)	Depreciation, amortisation and write-downs	(36)
(693)	Adjusted operating result (EBIT)	5
(49)	Impairment/write-down and reorganisation expenses	(147)
(742)	Operating result (EBIT)	(142)

Revenues amounted to €2,844 million, with a 2% increase compared to 2015, characterised by significant decrease of revenue estimates on various contracts in North America, Australia and West Africa. Higher volumes of activity were recorded in the Middle East. The cost of sales was €2,803 million, versus €3,442 million in 2015. Depreciation and amortisation amounted to €36 million, a slight decrease compared to 2015.

The adjusted operating result (EBIT) for 2016 amounts to €5 million compared to the loss of €693 million in 2015 including the estimation of the corrections above.

The operating result (EBIT) of 2016, a loss of €142 million was affected by the full write-down of a fabrication site and its inventories because it was not expected to be used in the strategic plan, the partial write-down of a logistics base, the write-down of tax credits, as well as reorganisation costs.

Offshore Drilling

2015	(€ million)	2016
1,067	Net sales from operations	903
(531)	Cost of sales	(449)
536	Adjusted gross operating margin (EBITDA)	454
(241)	Depreciation, amortisation and write-downs	(220)
295	Adjusted operating result (EBIT)	234
(11)	Impairment/write-down and reorganisation expenses	(1,202)
284	Operating result (EBIT)	(968)

Revenues amounted to €903 million, a decrease of 15.4% compared to 2015, due to the lower revenues of the drillship Saipem 12000, due to early termination of the contract, of the semi-submersible platform Scarabeo 6, affected by maintenance works in the first quarter and inactive during the following months, of the semi-submersible platform Scarabeo 8, affected by maintenance during the fourth quarter and of the semi-submersible platforms Scarabeo 3 and Scarabeo 4 which were operational for most of 2015 and inactive or decommissioned in 2016. The decrease was in a small part offset by the higher revenues from the full-scale activities of the drillship Saipem 10000 which underwent upgrading works in 2015.

The cost of sales was €449 million, versus €531 million in 2015, which was in line with the decrease in revenue.

Depreciation and amortisation decreased by €21 million compared to 2015, due to the sale of the semi-submersible platforms Scarabeo 3 and Scarabeo 4.

The adjusted operating result (EBIT) for 2016 amounted to €234 million, compared to €295 million in 2015, with a margin of 25.9%, down nearly two percentage points compared to 2015, due to the lower contribution from inactive vessels or vessels affected by maintenance during the period.

The deterioration recorded was partly offset by the increased contribution from the semi-submersible platform Scarabeo 7 (operational efficiency) and the drillship Saipem 10000 (affected by maintenance in 2015).

The adjusted gross operating result (EBITDA) stood at 50.3%, compared with 50.2% in 2015. The operating result (EBIT) of 2016, a loss of €968 million, was affected by the partial write-downs following the impairment tests of certain vessels, mainly semi-submersible rigs, the complete write-down of two jack-up and semi-submersible platforms and their inventories because they were not expected to be used in the strategic plan and the write-down of past due loans, as well as reorganisation costs.

Onshore Drilling

2015	(€ million)	2016
762	Net sales from operations	543
(525)	Cost of sales	(401)
237	Adjusted gross operating margin (EBITDA)	142
(185)	Depreciation, amortisation and write-downs	(178)
52	Adjusted operating result (EBIT)	(36)
(100)	Impairment/write-down and reorganisation expenses	(345)
(48)	Operating result (EBIT)	(381)

Revenues for 2016 amounted €543 million, a decrease of 28.7% compared to 2015, mainly due to reduced activity in South America. The cost of sales amounted to €401 million, a decrease of 23.6% compared to 2015. Depreciation and amortisation amounted to €178 million and were down by €7 million compared to 2015, due to closure for maintenance of a rig intended for a contract in Kuwait. The adjusted operating result (EBIT) for 2016

registered a loss of €36 million, compared to a profit of €52 million in 2015, due to higher costs of inactive resources in South America. The gross operating result (EBITDA) stood at 26.2%, compared with 31.1% in 2015. The operating result (EBIT) for 2016, a loss of €381 million, was affected by the full or partial write-down of drilling rigs and their inventories because they were not expected to be used in the strategic plan, the write-down of tax credits as well as reorganisation costs.

Balance sheet and financial position

Saipem Group - Reclassified consolidated balance sheet ⁽¹⁾

The reclassified balance sheet aggregates the assets and liabilities according to the mandatory scheme of functionality to the business, divided according to the convention of the three fundamental functions: investment, operation, finance.

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

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Net tangible assets	7,287	5,192
Net intangible assets	758	755
	8,045	5,947
- Offshore Engineering & Construction	3,392	2,924
- Onshore Engineering & Construction	536	444
- Offshore Drilling	3,050	1,754
- Onshore Drilling	1,067	825
Investments	134	147
Non-current assets	8,179	6,094
Net current assets	941	447
Provision for employee benefits	(211)	(206)
Assets (liabilities) available for sale	-	-
Net capital employed	8,909	6,335
Shareholders' equity	3,474	4,866
Non-controlling interests	45	19
Net debt	5,390	1,450
Funding	8,909	6,335
Leverage (net borrowings/shareholders' equity including non-controlling interests)	1,53	0,30
Number of shares issued and outstanding	441,410,900	10,109,774,396

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

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, 2016 stood at €6,094 million, a decrease of €2,085 million compared to December 31, 2015.

The variation was the result of capital expenditure of €296 million, positive changes in investments accounted for using the equity method for €18 million, depreciation and amortisation and write-downs for €2,408 million resulting from the new strategic plan and disposals for €19 million, and the positive effect deriving mainly from the translation of financial statements in foreign currencies and other changes for €28 million.

The resulting write-downs resulting from the strategic plan had an effect on **net current assets**, that decreased by €494 million, from positive €941 million at December 31, 2015 to positive €447 million at December 31, 2016.

The **provision for employee benefits** amounted to €206 million, representing a decrease of €5 million compared with December 31, 2015.

As a result of the above, **net capital employed** decreased by €2,574 million, reaching €6,335 million at December 31, 2016, compared with €8,909 million at December 31, 2015.

Shareholders' equity, including minority interest, at December 31, 2016 amounted to €4,885 million, an increase of €1,366 million compared to December 31, 2015.

This increase is due to the positive effect of the capital increase of €3,453 million, net of expenses and taxes, partly offset by the negative effect of the loss for the year of €2,080 million, by the positive effect deriving from changes in the fair value of exchange rate and commodity hedging instruments for €88 million, by the negative impact resulting from the payment of dividends for €36 million, by the purchase of treasury shares for €26 million, as well as the negative effect on shareholders' equity deriving from mainly from the translation of financial statements in foreign currencies and other changes amounting to €33 million.

Net borrowings at December 31, 2016 amounted to €1,450 million compared to €5,390 million at December 31, 2015.

Analysis of net borrowings

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Financing receivables due after one year	(1)	-
Payables to banks due after one year	252	2,193
Bonds and payables to other financial institutions due after one year	2,589	1,001
Net medium/long-term debt	2,840	3,194
Accounts c/o bank, post office and Group finance companies	(1,065)	(1,890)
Available-for-sale securities	(26)	(55)
Cash and cash on hand	(1)	(2)
Financing receivables due within one year	(30)	(3)
Payables to banks due within one year	180	179
Bonds and payables to other financial institutions due within one year	3,492	27
Net short-term debt	2,550	(1,744)
Net debt	5,390	1,450

The fair value of derivative assets (liabilities) is detailed in Note 7 'Other current assets', Note 13 'Other non-current assets', Note 18 'Other current liabilities' and Note 23 'Other non-current liabilities'.

A breakdown by currency of gross debt, amounting to €3,400 million, is provided in Note 14 'Short-term debt' and Note 19

'Long-term debt and current portion of long-term debt'.

Statement of comprehensive income

(€ million)	2015	2016
Net profit (loss) for the year	(789)	(2,080)
Other items of comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
- remeasurements of defined benefit plans for employees	3	1
- share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans	-	(1)
- income tax relating to items that will not be reclassified	(2)	(1)
<i>Items that will be reclassified subsequently to profit or loss:</i>		
- change in the fair value of cash flow hedges	(1)	125
- changes in the fair value of investments held as fixed assets	-	1
- exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	100	(37)
- income tax relating to items that will be reclassified	8	(37)
Total other comprehensive income, net of taxation	108	51
Total comprehensive income (loss) for the year	(681)	(2,029)
Attributable to:		
- Saipem Group	(702)	(2,039)
- non controlling interests	21	10

Shareholders' equity including non-controlling interests

(€ million)	
Shareholders' equity including non-controlling interest at December 31, 2015	3,519
Total comprehensive income for the year	(2,080)
Dividend distribution	(36)
Purchase/sale of treasury shares net of fair value in the incentive plans	(21)
Share capital increase net of changes	3,435
Other changes	68
Total changes	1,366
Shareholders' equity including non-controlling interest at December 31, 2016	4,885
Attributable to:	
- Saipem Group	4,866
- non controlling interests	19

Reconciliation of statutory net profit (loss) for the year and shareholders' equity to consolidated net profit (loss) for the year and shareholders' equity

(€ million)	Shareholder's equity		Net profit (loss) for the year	
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
As reported in Saipem SpA's financial statements	1,301	3,948	(127)	(808)
Difference between the equity value and results of consolidated companies and the equity value and results of consolidated companies as accounted for in Saipem SpA's financial statements	1,581	723	(850)	(993)
Consolidation adjustments, net of effects of taxation:				
- difference between purchase cost and underlying book value of shareholders' equity	801	797	(7)	(4)
- elimination of unrealised intercompany profits	(343)	(310)	30	37
- other adjustments	179	(273)	165	(312)
Total shareholders' equity	3,519	4,885	(789)	(2,080)
Non-controlling interests	(45)	(19)	(17)	(7)
As reported in the consolidated financial statements	3,474	4,866	(806)	(2,087)

Reclassified cash flow statement ⁽¹⁾

Saipem's reclassified cash flow statement derives from the statutory cash flow statement. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory cash flow statement) and in net borrowings (deriving from the reclassified cash flow statement) occurring between the beginning and the end of the year. The 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; (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)	2015	2016
Net profit (loss) for the year	(806)	(2,087)
Non-controlling interests	17	7
<i>Adjustments to reconcile cash generated from operating profit (loss) before changes in working capital:</i>		
Depreciation, amortisation and other non-monetary items	905	2,208
Net (gains) losses on disposal and write-off of assets	(18)	5
Dividends, interests and income taxes	318	516
Net cash generated from operating profit (loss) before changes in working capital	416	649
Changes in working capital related to operations	(468)	647
Dividends received, income taxes paid, interest paid and received	(455)	(318)
Net cash flow from operations	(507)	978
Capital expenditure	(561)	(296)
Investments and purchase of consolidated subsidiaries and businesses	(1)	-
Disposals	155	17
Other cash flow related to capital expenditures, investments and disposals	-	(1)
Free cash flow	(914)	698
Borrowings (repayment) of debt related to financing activities	12	1
Changes in short and long-term financial debt	370	(3,253)
Sale (purchase) of treasury shares	-	(26)
Cash flow from capital and reserves	(16)	3,399
Effect of changes in consolidation and exchange differences	12	7
NET CASH FLOW FOR THE YEAR	(536)	826
Free cash flow	(914)	698
Sale (purchase) of treasury shares	-	(26)
Cash flow from capital and reserves	(16)	3,399
Exchange differences on net borrowings and other changes	(36)	(131)
CHANGE IN NET BORROWINGS	(966)	3,940

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

The **net cash flow from operations** of 2016 amounted to €978 million which, together with disposals and partial disposals of non strategic assets of €17 million, net of the negative cash flow of net investments in tangible assets and other variations relating to investments which amounted to €297 million, generated a positive free cash flow of €698 million. The **cash flow from capital and reserves**, amounted to €3,399 million and was generated from the share capital increase for €3,500 million net of any expenses associated with the operation of €65 million and the dividend distribution of €36 million.

The purchase of treasury shares generated a negative effect of €26 million. The effect of exchange differences on net borrowings produced a net negative effect of €131 million.

As a result, **net borrowings** decreased by €3,940 million.

Net cash generated from operating profit before changes in working capital of €649 million related to:

- the net loss for the year of €2,080 million;
- depreciation, amortisation and impairment of tangible and intangible assets for €2,408 million, partly offset by changes in

- investments accounted for using the equity method for €18 million, by the change in the provision for employee benefits for €5 million and exchange differences and other changes for €177 million;
- by net losses on sales of assets for €5 million;
 - net finance expense for €71 million and income taxes for €445 million.

The positive change in working capital related to operations of €647 million was due to financial flows of projects underway.

The item dividends, interest and income taxes paid in 2016, negative for €318 million mainly

relates to income taxes paid net of tax credits refunded.

Capital expenditure during the year amounted to €296 million. Investment can be divided by area of business as follows: Offshore Drilling & Construction (€94 million), Offshore Engineering & Construction (€117 million), Onshore Drilling & Construction (€77 million) and Onshore Engineering & Construction (€8 million).

Additional information concerning capital expenditure in 2016 can be found in the 'Operating review' section.

The cash flow generated by disposals amounted to €17 million, mainly referring to the sale of non-strategic assets.

Key profit and financial indicators

Return On Average Capital Employed (ROACE)

Return On Average Capital Employed is calculated as the ratio between adjusted net profit before non-controlling interests, plus net finance charges on net borrowings less the related tax effect and net average capital employed. The tax rate applied on finance charges is 27.5%, as per the applicable tax legislation.

Return On Average Operating Capital

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

		Dec. 31, 2015	Dec. 31, 2016
Net profit (loss) for the year	(€ million)	(789)	(2,080)
Exclusion of finance costs on borrowings (net of tax effect)	(€ million)	177	112
Unlevered net profit (loss) for the year	(€ million)	(612)	(1,968)
Capital employed, net:	(€ million)		
- at the beginning of the period		8,602	8,909
- at the end of the period		8,909	6,335
Average capital employed, net	(€ million)	8,756	7,622
ROACE	(%)	(6.99)	(25.82)
Return On Average Operating Capital	(%)	(6.99)	(25.82)

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, 2015	Dec. 31, 2016
Leverage	1.53	0.30

SUSTAINABILITY

Saipem is committed to managing operations in a sustainable and responsible way, promoting dialogue and consolidating relationships with its stakeholders. The Company's presence in local communities enables it to build shared values that contribute to the socio-economic development of the areas in which it operates. Saipem has been officially accepted into the United Nations Global Compact initiative, from whose principles of environmental protection, respect for human and labour rights and the fight against corruption the Company draws inspiration to manage an ethical and sustainable business that creates value for its stakeholders. Saipem's inclusion among the companies that are a part of this initiative is the result of analysis by Global Compact on a Company's fitness to join the programme. This commitment dovetails neatly into the strategies launched by Saipem some time ago with a view to promoting the health and safety of its employees and the prevention of environmental impacts, also by means of constant technological innovation, combating corruption and careful attention to governance. The Company also promotes human and labour rights in the countries where it operates, thanks, among other things, to responsible management of its supply chain.

Relations with stakeholders

The identification and involvement of all bearers of legitimate interests are fundamental features of the Company's sustainability strategy. The approach to engagement with all types of stakeholders, activities and feedback received over the course of 2016 are detailed below. The main occasions when Saipem's Management met with the **financial community** were for the share capital increase, the issuance of bonds and updating the strategy. More generally, within the framework of presenting company financial information, in 2016 Saipem organised 24 days of road shows and gave presentations at 5 international conferences for investors. During these events, representatives of the Company presented Saipem's business and results in Amsterdam, Boston, Frankfurt, London, Milan, Monaco, New York, Paris, Oslo, Zurich, Geneva, and Yountville (California). Furthermore, Saipem has hosted three days of reverse-road shows at the Milan office. In 2016, during these events, more than 800

people, including portfolio managers and buy-side/sell-side analysts, were contacted during individual or group meetings, conference calls and video conferencing, while more than 1,150 people attended the 4 quarterly presentations on financial results via conference call and via the web.

Customers are important stakeholders both at the Corporate level and for individual projects. Reporting on operating projects is constant. Project Managers and project staff respond to client requests, who is often present on-site in day-to-day operations. Clients are also involved in HSE training initiatives, such as environmental awareness campaigns or the LiHS (Leadership in Health and Safety) programme. At the end of each project, and on an annual basis, the client is asked for feedback using the 'Customer Satisfaction' tool. In 2016, 59 Customer Satisfaction questionnaires were collected in which clients expressed an opinion on the methods used by Saipem for managing local stakeholders and the value generated in the country.

Furthermore, meetings with clients or potential clients are organised in pre-bid and bid phases and can involve a number of specific aspects such as Saipem's approach to sustainability. In a few projects, especially in Angola and Indonesia, Saipem involved its clients directly, engaging them in initiatives for the community in the countries.

In Azerbaijan, Saipem involved local management and some representatives of the clients, inviting them to participate in the HOPE (Human Operational Environment) programme, a specific training course on Human Rights that is adapted as needed, case by case, to the situation in the country in which it is held.

Human capital is a fundamental asset for the Company's long-term success. Saipem works to attract talented personnel and promotes development, motivation and professional skills. Saipem also works to guarantee a safe, healthy working environment and to have a proactive relationship with trade unions so as to ensure an open dialogue based on cooperation.

During the year, the third edition of the 'Strategy LineUp' was launched, which consists in organising a series of meetings aimed at all company employees on strategic priorities and business objectives. Local employees in several countries, like Brazil, Indonesia, Kazakhstan, Nigeria and Venezuela, were involved in local sustainability initiatives.

For the benefit of all employees, the Company published the 'Saipem Guide to Business Integrity' for internal use, with the intent of further strengthening knowledge and understanding of Saipem's Code of Ethics and of the Saipem document system dealing with Integrity issues.

Local communities are priority stakeholders of the approach which takes into consideration the needs of local communities and contributes to their progress in terms of social and economic development and improvement of the living conditions. Each operating company or project has a specific approach to relations with local communities that takes account of Saipem's role and the socio-economic and cultural context in which it operates. During the year many initiatives involving local communities were held. In Kazakhstan, a public meeting was held with the population of Kuryk village to present and discuss the Ersai sustainability plan and to strengthen the sense of responsibility and recognition of these initiatives by the community. Initiatives and projects for the local communities were implemented in Angola, Azerbaijan, Bolivia, Brazil, Congo, Indonesia, Kazakhstan, Nigeria, Peru and Venezuela (additional details can be found in the 'Saipem Sustainability 2016' report). In many countries, Saipem cooperates with local schools and universities in initiatives to encourage the development of the human capital. These include, for example, the organisation of internship and research projects (Angola, Azerbaijan and Italy), the distribution of scholarships (Nigeria and Kazakhstan) and the provision of training courses (Nigeria).

Engagement with governments and, above all, local authorities is specifically defined in relation to the circumstances and countries in which Saipem operates, taking into consideration the specificities of the country and the social context. Alongside institutional and official relations with the authorities, Saipem cooperates with public bodies for the implementation of socio-economic development programmes. In many countries, proactive cooperation has been established to implement joint local development initiatives. These include cooperation with health ministries, hospitals or local medical centres. For example, awareness raising projects for Malaria were implemented in Congo, Angola and Nigeria.

Vendors are considered key partners for the success of Saipem's business. For this

reason, Saipem is committed to developing and maintaining long-standing relations with its vendors. Through a structured vendor qualification process (Vendor Management Process), Saipem is able to assess vendor reliability in technical, financial and organisational terms. During 2016, the company continued its social responsibility audits involving vendors in India, China, and Indonesia.

At the local level, specific initiatives for vendor engagement are ongoing. These are targeted at improving the quality of supplies and at encouraging vendors to comply with Saipem's quality, health and safety, environmental and social requirements. Specifically, meetings were held with vendors aimed at informing and training them.

Even **local and non-governmental organisations** receive these specific engagement activities. Saipem through its institutional channels, regularly publishes information about its corporate governance and internal control system, its company management systems, as well as its objectives and performance.

Cooperation with Eurasia Foundation of Central Asia (EFCA) in Kazakhstan proceeded in 2016 with a view to completing initiatives aimed at education in the local community. Work with Junior Achievement Azerbaijan (JAA) to reinforce the technical skills of university students also went ahead. A new collaboration agreement with Actions de Solidarité Internationale (ASI) has been activated in Congo to help develop the technical skills of a group of local women.

Finally, during 2016, Saipem surveyed a sampling of internal and external stakeholders in order to identify concrete sustainability issues: 11 financial stakeholders, 2 representatives of non-governmental organisations, 9 representatives of local authorities, 16 representatives of local communities, 24 clients and 72 representatives of industry and vendor organisations, over 792 employees and 59 senior managers, provided their perspectives through a specific survey, giving the company useful information, also for determining future actions and sustainability targets.

Sustainability reporting

Saipem's Sustainability reporting system consists of numerous complementary documents covering the main stakeholders'

disclosure requirements and which have been defined, thanks also to a process of materiality assessment on sustainability issues. The issues were defined by involving 985 internal and external stakeholders, and the issues are: Safety, Safe operations, Asset integrity and process safety, Spill prevention and response, Local employment, Anti-corruption and ethical business practices, Technological and business innovation, Labour rights, Transparency, Ethical supply chain, Training and development, Health and well-being and Energy Efficiency. 'Saipem Sustainability' (available at www.saipem.com) reports the main results for the year, objectives for coming years, and Company strategies and approaches concerning specific themes. The document also acts as Communication on Progress (COP) in the context of the Saipem's commitment to the Global Compact and the in

compliance with and promotion of its Ten Principles.

The document is published following the international guidelines set out by the Global Reporting Initiative (GRI - issue G4).

Within this Annual Report, the 'Sustainability Statements' is published. It describes the Company's sustainability performance for the year, as well as its main results in terms of performance indicators and trend analyses.

Additionally during the year Saipem published:

- 'Saipem Biodiversity', which describes Saipem's approach to biodiversity protection, and contains an overview of the primary best practices in this field;
- 'Local Content for Sustainable Development', which describes Saipem's approach to the promotion of Local Content, while at the same time offering numerous focuses on individual countries.

RESEARCH AND DEVELOPMENT

Due to changes of global scenario on energy sources and increased exploitation costs, Oil & Gas industry needs innovation to cope with the near-future challenges. Saipem has a long tradition in innovation mostly driven by frontier operations; however, a step-change impulse and a new innovation strategy is now necessary, both in scope and intensity, to cope with the current market scenario.

In line with this frame, Saipem has recently organised its own technology innovation activities according to three main pillars:

- Technology Development applied to tools and technologies for commercial projects execution, or to integrated systems with high technological content;
- Transformative Innovation to change processes and how Saipem works being more open to the 'ecosystem' and also by taking advantage of new technologies;
- Technology Intelligence to scout new technologies within and out of the Oil & Gas industry aiming at identifying disruptive emerging technologies as opportunities with high impact on our business.

Saipem's technology development is strongly focused on projects and services execution, often sharing activities and resources with projects; in the latter case, the activities are so intrinsically associated with Saipem's way of making business that the related expenses are not reported in the formal R&D spending figure, although they usually amount at least, if not more in the past years, the same as the R&D investments.

The activities are organised into thematic areas which directly coincide with the activities of the Business Units in order to ensure alignment with their strategies and to foster an effective transfer of technology development results.

The Offshore Business Unit focused its development efforts primarily on Subsea, Floaters, and Export Lines & Trunklines in addition to material technologies of interdisciplinary interest for the areas just mentioned. Nowadays, Subsea Field Developments are becoming more and more complex and expensive. To make subsea fields exploitation economically viable for clients, Saipem is working on innovative solutions capable to change the way how the existing subsea fields, or new subsea infrastructures, will be developed, by reducing the total cost of ownership. This is possible by combining several new technologies into new

development schemes, making brownfields debottlenecking, stranded fields exploitation and even greenfield developments technically and economically viable, also in deeper water. Indeed, new technologies are moving topside operations onto the seabed and are increasing the distances of the subsea production wells from the main infrastructures, heading to the so-called 'Subsea Factory', 'Long Tie-Back' solutions and 'All Electric' fields, obtaining also a consequent reduction of tubular and umbilical items installed subsea.

In this respect, Saipem has signed with Total and Veolia a co-ownership and exclusive commercialisation agreement for subsea water treatment technology SPRINGS® (Subsea PROcess and INjection Gear for Seawater), a nanofiltration-based sulphates removal unit from water designed for subsea use, thus enhancing the economics of oil recovery. Saipem is leading the industrialisation and commercialisation of the technology. In 2016, Saipem completed also a joint development project with major clients on its Spoolsep technology, for the gravity separation of produced water from oil, still under development on a test spool running in France.

In the strategic segment of SURF Saipem established new milestones in the oil service industry with the installation of two gas export Free Standing Hybrid Risers (FSHR), 19-inch and 20-inch in 2,200 metres of water depth respectively located in the Pre-Salt area of Santos Basin. In particular, the operations related to the 20-inch FSHR set records for the largest, deepest and heaviest installation of such systems in the industry, as well as the longest and heaviest buoyancy tank ever installed. The 'Heat Traced Pipe-in-Pipe' for rigid J-Lay extends the application of the most efficient active heating technology to larger diameter risers and flowlines, for even longer tie-back lines. In addition, Saipem is developing and testing a new, low cost solution, consisting in a subsea station able to warm up locally the fluid passing through the pipe, solving flow assurance problems during production. The new 'Fusion Bonded Joint' technique enables, in place of more expensive clad pipes, the restoration of the continuity of the internal plastic liner during the construction and installation of the water injection line.

Subsea remote operation and intervention technologies are key to the success of

installation and life of field services. All the subsea intervention technologies developed by Saipem, like the Innovator ROV, the SiRCoS sealine repair system, the ultra-deep and ultra-shallow trenching systems and the other subsea engineered systems, have benefited of the experience in executing challenging subsea interventions works.

In 2016, Saipem has successfully completed sea trials of its new ROVs (Remotely Operated Vehicles), the Innovator 2.0[®]. This new Heavy Work Class ROV is the result of three years of design and testing and represents a benchmark of excellence in terms of subsea robotics, drawing on Saipem's experience in the construction of underwater facilities.

Two Innovator 2.0[®] will operate onboard the new built vessel 'Normand Maximus', capable to deploy the ROVs in very harsh sea states. Furthermore, the new 'Hydrone' concept, now subjected to a development and industrialisation programme, was born as an evolution of the Innovator 2.0[®] system, integrating AUV (Autonomous Underwater Vehicle) functionalities and innovative automation advanced features, suitable to perform all type of inspection and light intervention operations for long time, without support vessel.

Our best-in-class competences in materials technology will be further exploited to enhance productivity and reduce the cost of quality: the 'Internal Plasma Welding' technology for carbon steel and clad sealines, successfully used on projects in Asia, Middle East and Caspian area (Kashagan in 2016), has definitively demonstrated how this is possible. New and even faster welding and field joint coating techniques, exotic and composite materials for pipes, spools, valves and ancillaries are under development, to face corrosion, fatigue, high pressure and high temperature applications. In particular, Saipem is very active in developing and proposing to clients subsea solutions integrating the new, disruptive, Thermoplastic Composite Pipe products, able to face the above combined tight requirements and to reduce the total cost of tubular subsea equipment.

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

The leading edge subsea trenching technologies, successfully developed and used on projects in Caspian Sea, are continuously supporting our projects, especially in very shallow waters.

As regards Floating LNG, the Tandem Offloading floating system has been recently fully qualified together with Trelleborg, while our Moss Maritime subsidiary recently

achieved pioneering experiences in the market of conversion of LNG Carriers to FLNG and FSRU units.

The Drilling Business Unit was mostly concentrated on the adoption of new drilling techniques and green solutions: a Saipem drill ship was equipped with Managed Pressure Drilling (MPD) equipment and is operative for a client in the Mediterranean Sea. A package of new technologies based on a 'green design' approach is available to offer solutions to minimise the environmental impact and maximise the energy saving of drilling semis and drill ships.

The Onshore Business Unit was mainly focused on the optimisation of proprietary licenced process technologies and on novel technological solutions for selected business segments (LNG, Heavy Oil, Gas Monetisation, CO₂ Management) in order to increase the value proposition to clients.

Implementation is proceeding for a multi-year plan to keep the proprietary fertilizer production technology 'Snamprogetti™ Urea' at the highest level of competitiveness. After completion of the development of the novel 'Supercups™' trays, ongoing activities include:

- improvement of the resistance to corrosion and cost reduction through development of novel construction materials;
- reduction of energy consumption through optimisation of the utility systems;
- reduction of the environmental impact ('Urea Zero Emission') through highly innovative solutions under development.

In the field of gas monetisation a particular effort has been devoted to the optimisation of the technology for the production of ammonia in collaboration with the licensor Haldor Topsoe A/S to keep our offer of ammonia-urea complexes at the top of competitiveness. On another side, the COP-21 Agreement, targeting containment of mean temperature increase to 'well below 2 °C' by the end of the century, will require extensive deployment of measures to reduce emissions of CO₂ to the atmosphere. In addition to ongoing efforts for the development of novel solutions for reduction of energy consumption in processes of interest, Saipem is building a technology portfolio to deal either with purification of natural gas from reservoirs with high content of CO₂ or capture of CO₂ from combustion flue gas in power generation and industrial processes.

A comprehensive programme dedicated to onshore pipelines was kicked-off in 2016 in view of improving and optimising several different aspects of the design and

construction procedure. In this field a notable achievement in 2016 was the runner-up environmental award of IPLOCA (International Pipe Line & Offshore Contractors Association) for the trenchless solution adopted for the Chinipas slope pipeline crossing (Mexico). The trenchless solution (Raise Boring) used allowed to overcome the rocky cliffs with heights ranging from 150 to 200 m improving the safety conditions during construction and minimising the pipeline construction impacts on the environment. Though Raise Boring technique for pipeline crossing is not common in Mexico, Saipem has believed in pursuing a safer solution with a better environmental footprint. Alternative common methodologies to cross vertical cliffs provides huge earth movement and need for massive soil restoration.

Finally, an increased effort was devoted to significant cross-business themes, such as Oil Spill Response and Asset Integrity Management.

In the overall frame of technological development activities, Saipem filed 36 new patent applications in 2016. Along the years the company has matured a solid patent portfolio that, at the date of December 31, 2016, includes 334 patent families and about 2,300 patent titles.

In the field of Transformative Innovation, in the current market environment characterised by strong competition and uncertainty regarding prospects for development, Saipem has launched a new initiative to further consolidate competitive positioning for the future challenges. It has been conceived a

new innovation lab, 'The Innovation Factory', targeted at increasing Saipem productivity as requested by the Oil & Gas industry pressure on projects costs. Strategic themes defined by management, agile approach, fast-prototyping, digital enablement, cross-industry open-innovation and enhancement of internal innovative thinkers are key to succeed.

More specifically 'The Innovation Factory' is characterised by the presence of a cross-functional team of young people with strong attitude to innovation and collaboration, by the identification of particularly relevant challenges for Saipem's business under the guidance of internal senior sponsors, by collaborating with external centres of excellence and a new innovation lab has been realised at San Donato Milanese, equipped with the most advanced technologies.

A few proofs of concepts have already been conceived with attractive results; a few of them have been also directly tested in the field.

Another new initiative has been launched, the 'Idea Innovation Challenge', aimed at the creation of new innovative ideas through the collaboration and knowledge sharing of people, by making use of typical tools of crowd-sourcing. The launched of the first challenge resulted very successful, a lot of new ideas were proposed, involving several innovators coming from about 20 countries: the most attractive ideas are now under development in the Company. Further challenges will be launched in the near future, also open to the 'ecosystem' external to Saipem.

QUALITY, SAFETY AND ENVIRONMENT

Quality

With the issue of the 'Regulatory System' Management System Guideline, 2014 saw the introduction on substantial changes to the management of work process as regards both governance and operational aspects.

For each work process identified, Process Owners at Corporate level have been appointed. These are individually responsible for the definition, management and improvement of their own Process in the whole Saipem Group. To ensure efficient implementation of the new model, a dedicated project called 'Regulatory System Improvement' was started. During 2016, activities were conducted under the coordination of a Programme Manager, with the direct involvement of all Process Owners and of about 100 focal points for the various Processes in the offices of Saipem SpA and Saipem SA. The Managing Directors and HR and Quality managers of all Saipem subsidiaries and branches were also involved operationally with the aim of providing uniform and coordinated management of the implementation of all Corporate Regulatory documents issued.

The standardisation of the Document Management System was completed and became operational for each subsidiary, meaning that the contents are available in a homogeneous and structured manner by Process to each Saipem employee. To reduce the volume and simplify the usability of the Regulatory System, the Management approved a new Corporate Standard scheme based on 'Synoptic Tables' during the annual quality review. As part of the 'Fit for the Future' project the year saw the continuation of the analysis of Quality cost centres used worldwide with the aim of homogenizing them and monitoring costs allocated to them.

Two main process optimisation areas were identified in the sphere of Quality.

The first, relating to Saipem activities, of improvement and certification, is strictly linked with the project 'Regulatory System Improvement' and led to the definition of a new Multi-site ISO 9001 certification scheme and to the redefinition of Corporate and Subsidiary Quality activities, in a manner that is consistent with the approach for processes and with the new Corporate/Subsidiary responsibilities.

The second, which concerns Quality Control carried out during the Construction Fabrication/Installation phase, flows into a multi-disciplinary stream finalised towards the

analysis and optimisation of activities in the 'Construction' phase of projects. The output of this stream, which is still in definition phase, is oriented to the overall reorganisation of the activities of Insurance and Quality Control on projects.

The following activities were also completed during the reporting year:

- implementation of the new ISO 9001 certification model based on the multi-site scheme with the new Certification Body TUV NORD;
- completion of the adaptation of the Quality System to the new version of the ISO 9001:2015 standard;
- confirmation of the ISO 3834 certification concerning the Fabrication Process through Welding for Onshore Pipelines and certification was obtained for the Arbatax Fabrication Yard;
- the coordinated collection of Lessons Learned was activated, applying the new process for the critical projects of Ichthys, S600 Dry Dock maintenance, Saipem 10000 periodic survey, Bonaccia NW Project & Clara NW Project and Kashagan Trunk & Production flow lines, which represent all Business Units;
- completion of LL uploading to K-Hub for Arzew and Shah;
- measurement of 'Customer satisfaction' and all executive projects, issue of the annual report and sharing it at dedicated meetings with each Process Owner;
- completion of the issue of 'typical' Quality Control Plans for Onshore plants. Implementation of their extension to Offshore plants and Floaters;
- improvement and redefinition of the Technical and Vessel document system;
- implementation of the reporting system for quality activities at branches/subsidiaries; (company and project level);
- initiatives (meetings and webinars) to raise awareness of Managing Directors/Branch Managers with regard to the new governance rules and their impact on subsidiaries and branches, including with regard to new initiatives being implemented;
- review of Key Process Indicators for all processes in accordance with output of 'Regulatory System Improvement' project;
- creation of a database to keep Regulatory System Improvement project activities under control both in Saipem SpA and in the subsidiaries;
- modification of the Quality System Internal Audit planning in accordance with new

- Process definition and Process Owners;
- execution of Quality audits planned at Corporate Process and executive project level;
- survey of the 'Cost of non Quality' on selected executive projects in accordance with the new methodology.

Safety

As regards services for the protection of safety at work, in 2016 a TRIFR of 0.78 was recorded, significantly better than previous years, the annual target and the industry benchmark figures.

The result was linked to the numerous initiatives undertaken during 2016, aimed at maintaining the safety standards in all the Saipem businesses at the highest levels.

The following should be mentioned:

- constant and renewed implementation of the 'Leadership in Health & Safety' (LiHS) programme on projects, sites and vessels of all Business Units, continues in accordance with 'customised' approaches, based upon the features of each specific site. In the second half of 2016 the LiHS Re-boost (relaunch of the LiHS programme in the Engineering & Construction fleet) reached all vessels identified by the management of Business Units in 2015. Managers and Supervisors were involved in specific LiHS workshops. Having completed this phase of the Re-boost with classroom training sessions, it was anticipated that during 2017 the vessels would independently carry forward the on-board cascading activities, the promotion of the Leading Behaviours and the provision of Choose Life workshops. The LiHS programme activities were also significant in Italy where, in various cases, contractor firms were also involved;
- the campaign dedicated to the 'Life Saving Rules' programme, launched directly by the CEO in September 2015 continued. The rules are issued by the OGP (International Association of Oil & Gas Producers) and were taken up by Saipem to disseminate them with greater emphasis, and draw attention to the hazardous activities and individual actions to protect oneself and others. During 2016, all material to support the campaign was made available to the organisation, allowing tens of sites and projects to implement them. Additional tools are also under development which, once ready, will be incorporated within the LSR material;
- in 2016 the dissemination further intensified of various applications developed for HSE and particularly software for running HSE audits, which has also now been adopted by other Group companies for ever greater integration and consolidation of experiences. The initial studies of an internal working group were also completed for optimisation and integration of various QHSE tools/software;
- during the second half of 2016 the process was initiated for the adaptation of Saipem management systems to the 2015 version of international standard ISO 14001. Having completed the gap analysis for identifying the new requirements introduced by the standard, the activity will continue throughout 2017 with the aim of improving management of Saipem environmental issues and renewing the certification envisaged at the end of 2017;
- other initiatives initiated were associated with asset integrity, the prevention of 'dropped objects', the launch of 'task familiarisation cards' for a multi-directional approach to personnel development and training;
- at the same time as the '60 Days of HSE' initiative launched by Saipem, the LHS Foundation is pursuing the ambitious aim of innovating the method of communicating health and safety, involving the greatest number of people possible throughout Italy. To celebrate the World Day of Health and Safety at Work on April 28, it promoted the first simultaneous safety roadshow in more than 50 Italian cities. This included a programme of more than 100 events which included educational workshops for children, theatrical productions, workshops, mass training to promote well-being in the workplace, and elsewhere. Such widespread geographical was made possible by the synergy between more than 100 safety ambassadors who, accepting the challenge launched last October by the LHS Foundation, joined the 'Italia Loves Sicurezza' movement and organised events in their cities with the purpose of discussing safety in innovative ways. Professionals, private and public corporations, universities and associations participated in this event. Special attention was given to schools, with proposals specially targeted to children, adolescents and their parents. As part of the 'Italia Loves Sicurezza' initiative, Saipem provided schools in the Milan and San

Donato Milanese area with the 'Growing New Leaders in Safety' project, an education programme on health and safety, offering diversified activities targeted at various age-groups of students;

- collaboration between Saipem, LHS Foundation and LILT (Italian league for the fight against cancer), as a joint partner, was also reinforced in the second half of year at the Saipem 'Free Entry' event on September 10, organised for employees and their families. Again this year for the children and young people the theme was on health and safety, via an innovative and engaging workshop developed by LILT.

As regards international standards ISO 14001 and OHSAS 18001, in the second half of 2016 the audit for maintaining environmental and safety certifications concluded, with a positive result. The opportunity was also taken for starting a process for the extension of the certificates to all branches of Saipem SpA. This process is expected to be concluded in the first quarter of 2017.

Environment

Saipem pursues continuous improvement in environmental performances, adopting strategies to reduce any type of impact and to conserve and make the most of natural resources.

Achieving these goals means promoting a high degree of environmental awareness at all Saipem projects, sites and offices. To that end, during 2016, Saipem has also strengthened its commitment on a variety of issues, among which:

- energy efficiency: following the transmission to Enea in December 2015 of the energy diagnoses of sites subject to the obligation deriving from Legislative Decree

No. 102/2014 (Italian enactment of European Directive 2012/27/EU on energy efficiency) during 2016 Saipem implemented the most cost-effective measures identified under the aforesaid diagnoses, to reduce energy consumption, CO₂ emissions and also operating costs;

- minimisation of environmental impacts which, during 2016 also concerned a specific project for the new 'accommodation camps'. A study was also completed that will serve as a reference for the future, and that will consider the environmental benefit, the economic cost and the associated return time for each proposed improvement;
- environmental awareness: during the month of June on the annual 'World Environment Day' (WED), various initiatives to motivate and make personnel aware of environmental sustainability and the correct management of environmental issues have been developed;
- during 2016, Saipem continued its initiative to distribute a specially design software for optimising shipping routes, to reduce navigation times and therefore fuel consumption. The optimal route is identified by also considering the weather conditions and marine currents;
- due to changes in the reference statutory framework (in particular, Law No. 68 of April 22, 2015, 'Provisions Governing Crimes against the Environment'), Saipem provided for the updating of Form 231, which entails a change of sensitive activities and specific control standards, with reference to environmental crimes.

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

HUMAN RESOURCES AND HEALTH

Workforce

During 2016, project closure and a consistent reduction in Onshore Drilling activities led to a reduction of the workforce dropping from 42,408 resources (of which 17,110 with critical skills) in 2015 to 36,859 resources (of which 14,161 with critical skills) at the end of 2016. The countries most impacted by this downturn were Mexico, Canada and Nigeria, following the demobilisation of resources working on onshore projects. South America was another geographic area seeing personnel numbers reduced following the completion of various drilling operations. The trend of female managerial workforce was down slightly (decreasing in 2016 by 0.2%) whilst the local managerial workforce was growing, and recorded an increase of 0.6% in 2016.

Payroll and related costs (HOLD)

In line with employment trends, the value of the payroll also decreased to €1,782 million at the end of 2016 compared with €2,222 million at year end 2015. At the same time, the per capita figure was also down from €48.1 thousand in 2015 to €45.2 thousand in 2016 because of the laying off of resources employed through direct hiring in areas characterised by higher costs (Canada).

Organisation

In relation to the market scenario characterised by the ongoing reduction of investment, the consequent increased competition and the evolution of technologies, resources and processes in the development of our business, during 2016 various organisational interventions developed were oriented at seeking maximum operational flexibility and recovering efficiency and efficacy.

In this context, the following programmes were initiated:

- 'Fit for the Future 2.0': pursuing a structural change via the development of a new industrial and organisational model with the following objectives:
 - efficacy via the adoption of more streamlined and agile structures and processes, customised according to the needs of each business and the peculiarities of the relevant markets;

- full accountability via the attribution of all decision-making and operational levers to holders of positions with responsibility for business results;
- optimisation of the company structure via a model which will enable greater flexibility for pursuing strategic operations (alliances, acquisitions, etc.);
- Engineering Optimisation: aimed at increasing the operational efficiency of engineering and the effectiveness of related processes, also optimising the execution models of project activities and rationalising the network of Saipem centres.

In addition, during the year the following organisational interventions were realised for the operating structures:

- formalisation of the organisational set up of the Infrastructures function, in order to ensure greater focus and autonomous business management;
- integration of the Floaters business as part of the Offshore BU and re-definition of its organisational structure, maximising operational and commercial synergies;
- organisational reconfiguration of project quality activities, for greater integration of field quality inspection activities/competences with the activities of supervision and execution of construction/installation and, at the same time, confirming a central structure for guaranteeing planning, definition and control of the correct application of the system and the Quality requirements of the individual projects;
- re-definition of the organisational structure of Project, Technical and Construction Management activities aimed at developing onshore plant projects, for the purpose of ensuring greater orientation of the project to its construction phase and make the most of the development and use of crossover skills.

As regards staff and business support, activity was focused primarily on the implementation of solutions that allow optimal governance/management of the following work processes:

- establishment of the 'Chief Financial and Strategy Officer' function for ensuring singular and integrated oversight of policy, planning and control of corporate development;
- restructuring of the 'Human Resources, Organisation and Services for Personnel Function' for ensuring an effective and

optimised corporate response to the operating needs of the various business functions;

- establishment of multifunctional purchasing groups for the Procurement function which, for strategic goods categories, ensure optimum strategy, planning and management of the procurement process at the Group level.

The Saipem SpA Authorisation Matrix was reviewed in relation to the following:

- the new roles attributed to the Board of Directors and the powers the board has conferred on the CEO;
- introduction of methods by which Saipem SpA exercises the Corporate role over the subsidiary companies;
- amendments to the company organisational structure and the review of certain work processes and the associated powers of attorney.

Lastly, adjustment of the subsidiaries' and branches' organisational system continued, with particular reference to the organisational structures/models and the new Authorisation Matrix introduced during the period.

Human Resources Management and Industrial Relations

In light of the aforesaid relevant context the Human Resources Management initiatives put in place were intended to achieve significant savings in the various HR processes. These actions were realised via both reviewing corporate processes and monitoring management phenomena such as holidays, time off, overtime, transfers and the associated costs. The actions were implemented with the involvement of union representatives, and enabled a review of the structure of personnel costs, which is better adapted to the current international market scenario.

As part of the 'Fit for the Future' initiatives, a plan was implemented in Italy for achieving a change of the qualitative/quantitative mix of resources which, after sharing and signing an agreement with the territorial representatives and the 'RSU', the Unitary union representative bodies, envisages early retirement according to Article 4 of the Fornero Law, of a total number of 400 staff during the coming three-year period, 76 of who took the option during 2016.

To reinforce employees' engagement and to increase the sense of belonging to the Group, a process was undertaken which will lead Saipem, in 2017, to introduce a new, more flexible company welfare system, which will meet the needs of the various age-groups.

This system will not only take account of the various needs that may derive from individual personal and family situations, but will also allow exploiting the innovations introduced in the relevant legislation, both in terms of tax and contribution, for generating a saving both for the company and a greater net amount that can be spent on resources.

The Company's industrial relations model has thus for many years now focused on ensuring the harmonisation and optimal management of relations with trade unions, employers' associations, institutions and public bodies in line with Company policies. Again with reference to the commitment to reinforce the dialogue with social partnerships and further to the demerger from the parent company Eni, the procedure was started for the election of representatives to the Special Negotiating Body appointed to create a new European Corporate Committee (Comitato Aziendale Europeo, CAE) during 2017 to represent workers involved in Saipem entities permanently operating in the European Economic Area and in Norway.

International Industrial Relations featured the achievement of important negotiating results, primarily the renewal of salaries, allowances and results-related bonuses in countries such as: Singapore, Nigeria, Brazil, Mexico, Peru and Kazakhstan. In particular, explicit references were added to the commitment of the trade unions to making their own and disseminating the contents of the Company's Code of Ethics among employees for the purpose of sharing and promulgating underlying principles. The admission of Saipem to the United Nations Global Compact bears witness to the company's major attention to industrial relations, and its increasing commitment on the subjects of environmental sustainability and anti-corruption.

As regards operating personnel working on board vessels in the offshore construction industry, there was the important renewal of the Special Agreement for 2016 with the International Transport Workers' Federation (ITF) on behalf of the companies Saipem Norway AS, Snamprogetti Saudi Arabia and Saipem (Portugal), Comércio Marítimo.

Concerning industrial relations in Italy, Saipem further strengthened the structure of a specific programme with sector trade unions, which is distinct from trade union policies pursued by Eni.

Important work was carried out during the year regarding personnel operating in Italian sites and in our various businesses:

- for the Drilling Italia unit the agreement was signed for the implementation of CIG (Lay-off Fund for supplementing earnings),

- for around 50 employees, following the postponement, communicated by the client, of the drilling operations in Basilicata;
- at the Arbatax production unit, meetings were held between the company and regional and territorial union representatives, where the prospects of work loads at the fabrication yard were reported;
- in the maritime sector, a number of steps forward were made in the completion of the renewal of the national collective labour agreement and the negotiations for the new industry supplementary company agreement.

Knowledge and skills

The protection and development of Company know-how represented an additional area of action during 2016 in which the Human Resources Management Department, in strict association with the business functions, promoted introduction of integrated operating tools to support management of specialist knowledge and professional staff development.

In particular, via the development of the K-Map project, the process of mapping and the related analysis of technical professional skills and knowledge, accrued by the staff within the various reference operating contexts was consolidated. This will enable more prompt appraisal of the qualitative/quantitative adequacy of Saipem human capital. Monitoring on a global scale was implemented during 2016 of 157 Professional Roles, belonging to the various business areas, deemed particularly critical in terms of attraction and retention.

As regards professional development, via implementation of the K-Model project, all growth paths were reviewed and updated, enabling more targeted mobility initiatives, including between functions, and improving the construction of careers whether technical or managerial, based on a broader and more articulated portfolio of competences. More specifically, as regards this latter objective, an additional 'Scheduled Job Rotation' project was implemented for ensuring consolidation of specific competences other than those belonging to the relevant professional category.

The project was started following the analysis of the needs expressed by the business contact persons, envisages the implementation of a series of rotations within the various functions involved, for an average period between 12 and 18 months, based on the required level of consolidation of the specific competences.

Following the introduction of the new Leadership Model, with a view to ensuring a faster and more effective development of

managerial figures, a renewed 'Pipeline Leadership' was created via the 'Fast Track' development path. This development route involved young, high potential individuals entered on career paths featuring a highly restricted schedule to achieving a series of target management positions, or to be enhanced in the medium-long term.

The training initiatives focused in particular on the development and consolidation of distinctive competences, as regards the reference competitive context, such as project management, engineering, finance and economics.

More specifically, training relating to project management in 2016 consolidated the path aimed at taking an in-depth look at principles and methodologies at the heart of 'project management' and dedicated to the dissemination of the associated key disciplinary skills.

In addition, again on project management in the energy and plant systems sector, Saipem confirmed its commitment to provide training activities also for the academic world via the 'Saipem International Chair', developed in collaboration with the Politecnico di Milano for Italian and international students.

With reference to engineering, training was developed, across the spectrum of technicians and specialists, for a dissemination of know-how that can ensure greater interaction between the roles belonging to different technical structures and a more effective interchange between them. The development of specialist know-how for the creation of skills that can be exploited in the Oil & Gas sector by young diploma holders is also ensured by continuing the Sinergia programme, entered into with two technical institutes I.I.S. 'A. Volta' in Lodi and I.I.S.S. 'E. Fermi' in Lecce.

Training in finance and economics gave rise to a comprehensive plan for the development of macro skills complementary to technical and specialist competences.

Following the process for the mapping of competences and the project for the redefinition of development paths, the training matrix was updated to provide a more prompt and effective connection between the distinctive skills of the key critical roles and the associated training programmes.

As regards Compliance and Governance issues, training continued throughout the year by the e-learning method, for all employees in order to ensure greater knowledge and awareness.

Innovation

To meet the challenges that our sector will have to tackle in the coming years, as well as pursuing the aim of containing costs,

Innovation is an additional essential component in the construction of a new Saipem. The Company decided to pursue a series of appropriately selected investments, which have Innovation as the common denominator, currently already recognised as a key element, but which in the future will take on even greater weight. The prevalent expectations regarding human resources and the multiple stimuli that have been launched in the last year reside primarily in the capacity to generate new ideas and challenge current practices for pursuing continual and targeted improvement.

To this end, the initiatives of the Innovation Factory have been implemented. Its aim is to be a veritable incubator of ideas conceived by young, innovator thinkers whose goal is to submit a series of projects based on 'non-conventional' systems and working practices to Top Management. The challenges they are called on to face are particularly significant as they are assigned to the mentoring of senior managers, in the form of project sponsors, to ensure continuous alignment with the company strategy.

The Innovators also operate within a dedicated lab where the spaces are designed for perfect integration with the most modern digital technologies and where they experience new flexible working and collaboration methods.

Some of the initiatives already in the process of submission:

- Saipem Working Collaborative Platform which manages, controls and simulates our core businesses in an integrated way, during the entire life-cycle of a project;
- Construction Digitalization designed for advanced materials control and for increasing efficiency and productivity of construction activities;
- Augmented Reality & Virtual Reality for Maintenance, for the development of augmented reality that along with remote support during the maintenance phases allows for more rapid and effective operations.

Human Resources Management is also moving to tackle the new challenge of Digital Transformation and seize the opportunities deriving from the use of new IT systems to support management and development.

During the course of the year an international working team was developed, which collaborated with the aim of implementing a new integrated information system (iCloud technology) called 'People +', which will be launched in February 2017. The System will support the management of Talent Acquisition and Development processes via:

- more direct and rapid involvement of the Line Functions in the use of the HRO

system, including by exploiting the system on mobile devices;

- a system of governance for the HRO processes, consolidated at Saipem Group level, able to provide integrated reporting and a system for the performance measurement of processes and systems managed (KPI);
- effective monitoring, development and improvement of the skills and capacities of the Saipem personnel.

As well as seizing a modernisation objective, all the above will enable the Line Management to focus on operating performance by having full control of all competences and resources assigned locally and internationally.

Remuneration

For purposes of consistency with the current Saipem Strategic Plan, the 2016 Compensation Policy guidelines include challenging performance targets that permitted guiding, monitoring and evaluation of cost-containment activities, as well as monitoring, development and enhancement of business skills that are either critical or significant to reach the objectives set in the corporate strategic plan. All managerial personnel has been focused on the challenging goals stated to the market on presenting the strategic plan, in terms of cost savings and financial management, which formed the priority for 2016 and therefore set out according to a top-down process to all levels of the organisation.

Utmost care has been taken in defining the annual pay policies in terms of selectivity paying particular attention to the identification of critical resources that are difficult to find on the market with a view to improving the compensation positioning, taking into account the specific characteristics of the relevant labour markets and current business trends and future outlooks.

The remuneration policy guidelines were generally designed in the long term and variable incentives have been resized or adopted on a selective basis, in favour of long-term incentive instruments.

Especially, with the aim of ensuring retention of strategic resources, a long-term financial bonus plan was introduced, aimed at attracting and retaining young staff with a high growth potential and resources with high technical know-how.

The 2016 Compensation 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 management's interests aiming at value creation for shareholders in the medium-long term.

The '2016 Remuneration Report' was drawn up in compliance with Article 123-ter of Italian Legislative Decree No. 58/1998 and Article 84-quater of Consob Issuer regulations and was approved by the Board of Directors of Saipem on March 16, 2016, with a favourable vote later expressed by the Shareholders' Meeting on April 29, 2016 (for further details, see the Remuneration Report published on the Saipem site).

The minimum threshold (trigger) score was not reached on finalisation of the corporate objectives and evaluation of 2015 management performance, so no annual individual financial bonuses were paid out.

For its managerial personnel, Saipem has introduced a share-based Long-Term Incentivisation Plan for the 2016-2018 period, which replaces the two previous long-term financial incentivisation plans. The plan, whose purpose is to strengthen management participation in business risks, promote improvement of Company performances and pursue the long-term goals of shareholders, 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), and is aimed at Saipem's managerial personnel.

Occupational Health and Medicine

In terms of activities developed during 2016, we can report that the total of Saipem SpA medical visits, in Italy and overseas (missions and contract), was 3,050. There were 502 additional check-ups requested and managed by the Medical Service.

Concerning health information and training delivered to Saipem SpA personnel assigned abroad, we continue implementation of the 'Pre-Travel Counselling' Programme (682 employees trained in 2016), consistently with the evolution and updating of international health alerts. Since its launch in 2008, the programme has provided approximately 8,250 employees with precise, accurate information concerning risks connected with their destination, as required under the applicable legislation.

We continue updating the 'Sì Viaggiare', as an integral part of the Travel Medicine training process, and in a manner consistent with global health alerts. Awareness of vaccinations, mandatory and highly recommended ones in particular, continues for Saipem SpA personnel both in Italy and overseas and 765 vaccines (271 employees) were administered in 2016.

Saipem SpA has participated, for the third year, in the Workplace Health Promotion programme organised in collaboration with the local health authority and the Lombardy Regional Authority. In December Saipem was awarded by the Region of Lombardy the prestigious recognition as a business that promotes health through having completed the three years of the programme.

Since May 2015, the Health Monitoring activity has been in progress, with the aim of

	(units)	Average workforce	
		2015	2016
Offshore Engineering & Construction		20,002	19,492
Onshore Engineering & Construction		14,244	11,312
Offshore Drilling		2,619	2,011
Onshore Drilling		7,480	5,328
Staff positions		1,483	1,360
Total		45,828	39,503
Italian personnel		7,340	6,416
Other nationalities		38,488	33,087
Total		45,828	39,503
Italian personnel under open-end contract		6,666	6,038
Italian personnel under fixed-term contract		674	378
Total		7,340	6,416
	(units)	Dec. 31, 2015	Dec. 31, 2016
Number of engineers		7,263	6,086
Number of employees		42,408	36,859

preventing and monitoring obesity in offshore operations. This project involved 73 employees who suffered from the problem. By increasing the awareness and responsibility of the players involved the results achieved were very encouraging and stimulating for the continuation of this significant initiative.

The programme for controlling obesity has been extended to all operating sites. 5,980 employees were involved in the programme. A number of 3,073 employees were identified, more than 51%, with overweight and/or obesity problems.

Concerning the other activities implemented internationally, we underscore that the telecardiology programme was implemented in 57 work sites, with the deployment of 50 ECG devices to record data. In total in 2016, 3,343 ECGs were sent to the reference centre for cardiology evaluation, of which 112 in real time as they were suspected heart emergencies. The remaining recordings were made as part of the Cardiovascular Disease Prevention Programme and for specialist cardiology checks of employees with known heart problems.

The Saipem Cardiovascular Disease Prevention Programme (CVDPP) is a complete programme for tackling multiple risk factors for cardiovascular disease. This year the Programme involved 109 sites, where a total of 18,557 employees with risks associated

with cardiovascular diseases underwent screening. This enabled identifying 2,863 (15%) employees with a 'high' risk and their enrolment in the programme for the follow-up of the Risk Factors, including via telecardiology. A record was created, with the associated clinic follow-up, for each one. Via this initiative 81% of employees with established cardiovascular risks participated in training and information courses aimed at their particular risks.

The anti-smoking campaign – Don't Take My Breath Away – was developed entirely in-house. It consists of 4 phases of 2 hours each and is built on the transtheoretical model (TTM) of behavioural change. To date the campaign has been implemented in 16 operating sites. Of the 2,373 smokers on these sites, 273 agreed to participate in the programme and 66 of them stopped smoking, which means a success rate of 24%.

The Malaria Control Programme (MCP) was implemented in 31 operating sites in high risk areas. The total malaria case rate (MCR) was down 40% compared with 2015 and there were no deaths attributed to this disease among Saipem workers or subcontractors. The 'Stop Malaria!' campaign was launched in 2016. The event was successfully participated in by more than 2,300 Saipem employees and subcontractors, and included all non-immune employees in Nigeria, Congo and Angola.

INFORMATION TECHNOLOGY

As a continuation of what had been undertaken in previous years, the ICT function in 2016 added to its support of the objectives to cut operating costs, by also supporting the innovation that the company initiated during the year, in accordance with the new organisational structure defined in 2016. The evolution initiatives of Saipem information systems have been, on one hand, primarily focused on consolidating results achieved in both the application and infrastructure environments, in line with Corporate policies and on the other hand, to create the conditions for the development of innovative solutions.

With regard to costs, the adoption of the ICT Procurement Plan tool developed in coordination with the Procurement unit, has allowed a review of performance and service contracts in the ICT environment, for the purpose of renegotiating conditions and securing prices that are in line with cost containment goals.

With regard to the technical results achieved during the period, roll-out was completed in the SAP R/3 area for the company INFRA SpA, for the business infrastructure, for JV for the Tangguh onshore project and for the new Argentina branch of Petrex SA.

The commissioning was also completed for the application solutions that will allow the Saipem Finance Function to conduct its financial activities independently, following the decoupling from Eni. These solutions centre upon the SAP/FSCM (Financial Supply Chain Management) module, which optimises financial information flows and interfaces with systems operating on capital markets.

The general plan of interventions that Saipem set up to complete the separation from Eni's IT systems should also be added to these initiatives. The plan is divided into around 20 application and infrastructure-related initiatives, a part of which has already been carried out and others will be completed in 2017, affecting primarily the AFC, HR, Legal and Procurement functions, having the greatest exposure to the use of group solutions. These initiatives aim to offer a software alternative to what was previously provided by Eni, in particular as regards consolidated financial statements, compliance, labour disputes and company secretary.

Alongside SAP R/3, the Procurement unit, flanked by ICT, has adopted the Cloud SAP/Ariba platform through which, as of

October 2016, Saipem conducts Procure-to-Pay activities for the purchase of spare parts and consumables in the business sector. During 2017, the analysis of outsourcing for services and materials will continue, beyond the implementation phase mentioned, via electronic tendering processes and vendor management activities. The entire application environment will be redesigned depending on the SAP/Ariba cloud platform.

In the HR area, a project is in progress for the adoption of Oracle Fusion HCM, as a natural cloud-based evolution of the current IT system. Saipem had already adopted the recruitment module of this solution based on Oracle Taleo. The project now intends to complete migration of all Talent Management functions onto the new Oracle platform, while the workforce administration functions will temporarily remain on the previous Oracle Peoplesoft based system. Furthermore, the roll-out of the Falcon application continues satisfactorily. Falcon is the in-house solution dedicated to international payroll and HR processes, whose oversight is under the remit of Saipem India Projects, in Chennai, with significant savings in management costs.

ICT initiatives in the business area are based on the strategic need to develop a data-centric approach and a complete digitisation of corporate work processes, in line with the intentions of the Company's new Strategy and Innovation department. Developments in the sphere of business were therefore oriented towards automation of processes, according to a transformation approach called Project Information Management, which was introduced by ICT as an initiative for company improvement and made available to the Engineering, Project Management, Quality and Construction functions. Numerous areas of intervention were identified relating to both the efficiency, and the increased quality of engineering data that Saipem must provide its clients at the end of the project, during the so-called Handover phase of project data and documents. To this end, the ICT department has implemented new automated drawing generation processes based on Intergraph SmartPlant 3D modelling, and released new solutions for the cross-checking of engineering data based on Aveva Engineering and Intergraph Fusion, in order to improve the quality of the data produced by means of precise data quality techniques. There are

now many orders in which this experience has been reused, transforming this solution, known as Digital Project Data Hub, into a competitive advantage for Saipem. In 2016, new solutions were finally released for managing shared project lists such as the Item List, Line List and Electrical Load List.

In the context of construction support initiatives the increased deployment of the application for tracking spools on work sites can be noted and known as the STS (Spool Tracking System) and uses RFID (Radio Frequency Identification) supports; furthermore, specialised solutions have been disseminated to promote effective management of project documentation, as well as applications to manage technical documentation aboard vessels and at construction yards.

In the second half of 2016, an important experimentation was finally conducted of Big Data technologies, for managing huge amounts of data, applying it to support the definition of any project claim management actions. By innovatively cross-referencing information coming from document management with information relating to comments expressed by clients on such documents, new methods were developed for identifying disruption cases caused by the client during the document revision of the engineering drafts, cases that traditional analysis methods would not have highlighted.

After a period of net limitation of investment, new initiatives have been started in the infrastructural area, in particular optimisation and management tools of the centralised infrastructures, using the technical tool Splunk, with which numerous areas of technical analysis were covered for correct configuration and management of IT systems. In the context of the decoupling from Eni, the separation from the San Donato Milanese phone centre, owned by Eni, must also be mentioned. This was completed in December 2016. Saipem now also has its own CISCO VoIP technology.

The ICT solution created in 2013 in Chennai, India, to offshore some infrastructural activities, has grown further according to established plans: the dedicated team has reached 40 people and a first-level 24/7

service has been activated to manage services, networks, security and software applications on an international scale. In 2017, this solution will further consolidate its ability to monitor technical issues and the company's e-mail system. Over 70% of service tickets in Saipem for international server management issues were managed and resolved by the Chennai team, meaning service levels were raised despite a reduction in overall costs.

The IT infrastructural part also played a key role in equipping and enabling the Innovation Factory, the Saipem initiative aimed at identifying technological sites for change by involving a cross functional team of young people, selected from within the organisation based on their propensity to innovate and collaborate. The Factory was the breeding ground for the experimentation of IT collaboration technologies, with which to promote sharing of innovative experiences and methods.

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

Thanks to an increasingly extensive use of the CA RCM system for Role Compliance Management, dedicated to standardising the application profiles of the main company software, the activities required by company control methodologies were carried out for SAP and Oracle Peoplesoft HCM and the main software application environments, so as to complete the automation of the profile-user association process enabling the internal client managers to carry out the control role provided for under corporate regulations.

This was combined with a cutting-edge use of IT security technologies designed to mitigate the security risks associated with data processing by the Company information systems. In the security area, the coverage perimeters of the digital credentials management system, Oracle FastLogon, have been extended. This allows access to the main Company applications in a secure way by making use of the Single Sign-On. Finally an ICT risk assessment process was completed by performing a relevant number of BIA (Business Impact Analyses), in order to evaluate properly the risks associated with data processing by Company information systems, as well as any mitigation measures adopted.

GOVERNANCE

The '**Corporate Governance Report and Shareholding Structure 2016**' (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 16, 2017, and published on Saipem's website at www.saipem.com under the section 'Corporate Governance'.

The Report was prepared in accordance with the criteria contained in the 'Format for Corporate Governance and Shareholding Structure Reporting - 5th Edition (January 2017)' published by Borsa Italiana SpA and in the Corporate Governance Code.

The Report provides a comprehensive overview 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, roles and powers.

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 'Corporate 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 Registry of Insiders procedure).

The criteria applied for determining the remuneration of Directors are illustrated in the '**2017 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 Integrated Risk Management model that constitutes an integral part of its internal control and risk management system. It has done this with the aim of obtaining an organic and overall vision of the main risks for the Company, ensuring greater consistency of methodologies and tools to support risk management, and strengthening awareness, at all levels, of the fact that an adequate assessment and management of risks may impact on the achievement of objectives and on the Company's value.

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

Additional information on the internal control system and risk management, including details concerning its architecture, instruments and design, as well as the roles, responsibilities and duties of its key actors, is contained in the Corporate Governance Report and Shareholding Structure document. Saipem is exposed to risk factors related to the Group's business activities and to the activities of the industry in which it operates. The occurrence of such risks could have negative effects on the Company's business and on the income, balance sheet and/or financial situation of the Saipem Group.

These risk factors have been assessed by management for each individual risk in the framework of drafting the half-yearly and, where deemed necessary, the possible liability was set aside in an appropriate fund. See the 'Notes to the consolidated financial statements' for information on liabilities for risks set aside.

For a full description of the financial risks, please refer to the 'Notes to the consolidated financial statements - Financial risk management'.

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

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

For this reason, the Oil & Gas services industry has featured increasing competition on prices for lump sum turnkey contracts in Offshore and Onshore Engineering & Construction services and for rates of vessels in the Offshore and Onshore Drilling market.

In particular, the preparation of bids and the determination of price are the outcome of an accurate, precise and timely estimation exercise that involves every Company department and which is further integrated by a risk assessment to cover the areas of uncertainty inevitably present in each bid (so-called contingency). Despite these efforts, over the life cycle of the contract the costs and, consequently, the margins that the Company realises on lump sum contracts, could vary significantly from the sums originally estimated for various reasons linked, for example, to: (i) bad performance/productivity of suppliers and subcontractors; (ii) bad performance/productivity of Saipem's workforce; (iii) changes in working conditions (change order) that are not recognised 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 (i.e. steel, copper, fuel, etc.).

All of these factors and other risks generally inherent in the sector in which the Company operates may imply additional costs, non-payment of revenues and, subsequently, a reduction of the margins originally estimated and may lead to a reduction, perhaps even significant, of profitability or to losses on

projects. The outfall of such significant differences could worsen the Group's economic-financial results and damage the Company's reputation in the relevant industry.

To align its cost and competitive profile to the current oil and gas price, the Company is conducting the 'Fit for the Future' and 'Fit for the Future 2.0' programmes, whose various initiatives also envisage rationalisation of structural, fabrication yard and vessel costs and the implementation of a new business model in line with the changed market scenario.

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

The market context is characterised by the ongoing downward trend in the price of oil which, beginning in July 2014, has been aggravated by lower global growth than expected, with a negative impact on world demand for oil and gas.

This condition has an influence on the investment policies of the main clients, exposing Saipem to: (i) delays in the negotiation process and possible cancellation of commercial initiatives relating to future projects; (ii) cancellation and suspension of projects already underway (whether EPCI lump sum or Drilling services contracts); (iii) delays and difficulties in obtaining payment of contractual penalties provided for to indemnify the Company against the cancellation and suspension of such contracts; (iv) delays and difficulties in obtaining change orders for the scope of work requested by the client and executed by Saipem; (v) delays and difficulties in renewing leasing contracts for onshore and offshore drilling fleets prior to the expiry thereof and under economically advantageous terms and conditions.

This context may lead to a deterioration in relations with clients and, in the most significant cases, to international arbitration.

Risks associated with fluctuation of floating capital

The aggravation of the market conditions and the financial position of clients can cause delays in both payments from the clients for the services provided based on the contractual

provisions and acknowledgement and payment of variation orders and claims relating to contracts under execution. These fluctuations of cash flows may occur in spite of the contractor and client effectively cooperating 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.

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

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

The Company has equipped itself with various techniques that it implements beginning from the negotiation phase with the aim of obtaining the most favourable conditions, such as contractually agreed advance payments, and of monitoring its contracts through stringent procedures to obtain the certifications necessary to proceed to invoicing, or by constant reporting to the client of all changes to the contract or to project execution, so as to maintain positive or neutral cash flows during project execution. In spite of the activities in place, the EPCI and Drilling projects could reduce floating capital, exposing the Group to economic and financial impacts, as well as affecting its reputation in the relevant industry.

Risks related to inefficiencies in the supply chain

In executing its projects, and in the normal course of its activities, the Group relies on numerous suppliers of goods and services and subcontractors. Any inadequate performances by such suppliers and subcontractors could generate deficiencies in the supply chain and, consequently, lead to additional costs linked to the difficulty in replacing suppliers and in locating the goods and services necessary for the Group to carry out its activities, to the procurement of goods and services at higher prices and to delays in the completion and delivery of projects.

A deterioration in the relations with suppliers and subcontractors could translate into a competitive disadvantage linked to a reduction in Saipem's negotiating power, with subsequent increases in costs and times required, a worsening of contract terms and conditions and a deterioration in the Group's economic results.

Risks related to technological development

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

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

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

Risks related to legal proceedings involving the Company

The Group is a party in judicial, civil, tax and administrative legal proceedings. For a summary of the most significant cases, see the note 'Guarantees, commitments and risks - Legal proceedings' in the 'Notes to the 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.

Risks related to the Group's strategic positioning

The definition of strategies implemented by Saipem is based on analysis of macroeconomic and geopolitical scenarios of the relevant markets and the technological developments applied to them. Saipem also operates in an industry strongly characterised by strategic changes, also through the ever greater concentration of competitors via M&A operations, the creation of joint ventures and alliances.

Inadequate forecasts of the development of such scenarios, incorrect or delayed implementation of the strategies identified may expose the Company to a deteriorated competitive position within the sector, reducing market share and profit margins of the Group.

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

The Group is subject to the risk of fraud and/or unlawful activities on the part of employees and third parties. Specifically, in carrying out its activities the Group relies on subcontractors and suppliers that could commit fraudulent acts in concert with employees to the detriment of the Company. Furthermore, the Group operates in various countries characterised by a high level of fraud and corruption, referred to in the 'Corruption Perception Index' of Transparency International.

As regards this risk, the Company carries out periodical audits and checks, including with the assistance of external consultants. Although Saipem carries out these audits and verification activities periodically and has implemented, and continually updates, for the Group companies, an internal control system, a Code of Ethics and a model as per Legislative Decree No. 231/2001, as well as an organisation management and control model for the Group companies in foreign countries, it is not entirely possible to exclude fraudulent or unlawful conduct occurring.

Finally, Saipem makes available to its employees and stakeholders a confidential information channel overseen by the Compliance Committee, through which it is possible to forward reports concerning problems related to the internal control system, Company financial reports, Company administrative liability, fraud or other matters (i.e. breaches of the Code of Ethics, mobbing, theft, security, etc.). Further information can be found in the specific detailed section in the Board of Statutory Auditors' Report to the Shareholders' Meeting.

Risks related to the protection of information

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

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

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

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

Risks related to dependence on key personnel and specialist personnel

The Company depends to a significant degree on the professional contribution of key personnel and highly specialised individuals. By key personnel is meant 'Senior Managers with strategic responsibilities' (further information can be found in the specific detailed section in the 2016 Remuneration Report). By highly specialised individuals, on the other hand, is meant personnel who, on the basis of their skills and experience, are vital to the execution of projects and to the growth and development of Saipem.

If this relationship between the Company and one or more of the resources mentioned should be interrupted for any reason, there are no guarantees that the Company can restore it quickly using equally qualified individuals who can ensure the same operational and professional contribution in the short term. Furthermore, during expansive phases of the market, the Group could suffer delays in the hiring of personnel due to greater demand for specialised resources, which in turn could determine negative impacts on the results and reputation of the Group.

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

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

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

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

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

The current project cost estimations and hence the profitability of long-term projects may, therefore, change following the uncertainties associated with this type of contract, even if they were reasonably reliable when made. In the event of significant cost adjustments, the reductions in profit over the whole project life cycle may have a material impact on the current financial year and on future years.

Furthermore, change orders, which are an ordinary and recurring part of Saipem's activities, may increase (sometimes substantially) the scope of work and hence the costs associated with it. Therefore, change orders, even if beneficial in the long term, can have the effect in the short term, if not approved by the client in a timely and adequate manner, of reducing the overall margin of the project with which they are associated.

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

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

Risks related to health, safety and the environment

Saipem is subject to laws and regulations for the protection of health, safety and the environment at national, international and EU level. In particular, the Group's activities are subject to the possible occurrence of incidents that could have repercussions on people and the environment.

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

In spite of the Company's adoption of such procedures, the risk of events that are harmful

to the health of people and the environment during normal Saipem Group operations cannot be excluded. Furthermore, the occurrence of such events could lead to criminal and/or civil penalties against those responsible and, in some cases violation of safety regulations, pursuant to Legislative Decree No. 231/2001, with the resulting costs deriving from the imposition of penalties against the Company and charges deriving from fulfilling the environmental, health and safety legal and regulatory obligations.

Risks related to incidents involving strategic assets

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

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

The Group's assets are also subject to the normal risks associated with ordinary operations and to catastrophic risks linked with the weather and/or natural disasters.

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

(i) mistaken or inadequate execution of manoeuvres and work sequences that lead to damage for assets or facilities; (ii) mistaken or inadequate ordinary and/or extraordinary maintenance.

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

Finally, the Group sustains significant costs for the maintenance of its proprietary assets. Maintenance costs sustained by Saipem from

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

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

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

Saipem periodically monitors the political, social and economic risks of the countries it operates in or intends to invest in based on a specific risk assessment model. Specifically, Saipem has adopted an articulate security model based on the criteria of prevention, precaution, protection, information, promotion and participation, with the objective of reducing risks deriving from the unlawful actions of physical or legal persons who expose the Company and its assets, people, goods and image to potential damage.

In cases where Saipem's ability to operate is temporarily compromised, demobilisation is planned according to the criteria of protecting personnel and those Company assets that remain in the country subject to political instability, and of minimising interruptions to operations through the adoption of solutions that render more rapid and less costly the recommencement of ordinary activities once favourable conditions are restored. These measures can cause increased costs and a negative impact on the margin of projects executed in such countries.

Additional risks associated with operations in these countries are: (i) the absence of a stable legislative framework and the change of the rules and regulations valid within the territory where it is operating, including laws that implement international protocols or conventions for that sector of activity;

(ii) uncertainty over the protection of the foreign company's rights in the event of contractual violation by private companies or state entities; (iii) penalising developments or applications of laws, regulations, unilateral contract amendments which reduce the value of the assets, forced divestment and expropriation; (iv) restrictions of varying nature on the activities of construction, drilling, import and export; (v) changes in local regulations that impose the use of certain numbers of staff, and goods and services supplied by local companies (so-called local content); (vi) changes of national tax regimes, tax incentives, rulings with the tax authorities, international tax treaties and, in addition, risks associated with their application and interpretation in the countries where the Group companies operate.

For this reason, Saipem monitors compliance with laws in force and with its targets to reduce to a minimum the impacts from its operational activities. Moreover, amongst other things the regulatory framework also impacts the methods with which Saipem carries out its activities.

Any adoption of more restrictive or unfavourable regulations, or the imposition of obligations for compliance, or further requirements linked to Engineering & Construction and Drilling activities, may lead to changes in operating conditions and require an increase in investments, production costs or, at any rate, to a slow-down in the development of activities. Finally, any violations of health, safety and environmental laws could lead to limitations to the Group's activities or to fines, sanctions or penalties.

Transfer of risks to the insurance market

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

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

The Saipem Insurance Programme is structured in such a way as to appropriately transfer risks deriving from operations to the insurance market, in particular the risks associated with the management of the fleet,

equipment and other assets, including third party liability risks and risks deriving from the performance of contracts awarded by its clients.

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

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

Corporate insurance policies

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

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

Material damages

- 'Vessel fleet' policy: covers the entire fleet against events that cause partial or total damage to vessels;
- 'Equipment' policy: covers all onshore and offshore equipment, for example site equipment, onshore drilling rigs, subsea Remote Operating Vehicles (ROV), etc.;
- 'Transport' policy: covers any transport, movement and storage of items and equipment via land, sea and air;
- 'Sites and Property' policy: covers real estate, offices, warehouses and shipyards owned or leased;
- 'Other minor risks' policy: covers minor risks such as theft and dishonesty of employees.

Third-party liability

- 'Protection & Indemnity' ('P&I') policy: shipowners' liability cover through a P&I Club that is part of the International Group of P&I Clubs for events occurring during transit and for events occurring during offshore drilling and construction operations;
- 'Comprehensive General Liability' policy: covers all other types of general and third party liability claims arising from Saipem's industrial activities and supplements the specific P&I coverage;
- 'Employer's Liability' and 'Personal Accident' policies: these cover employer liability and employee accident risks respectively on the basis of the specific regulations in force in each country where the Group operates.

A key tool in the management of Saipem's insurable risks is the captive reinsurance company Sigurd Rück AG, which covers the initial part 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 awarded, specific project insurance coverage must be taken out. Generally, the contractual responsibility for such insurance lies with the client. 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, and testing) including the warranty period. The high insurance premiums and excesses on such policies are an incentive to Saipem in its efforts to achieve the continuous improvement of its prevention and protection processes in terms of quality, health, safety and environmental impact.

ADDITIONAL INFORMATION

Purchase of treasury shares

The Shareholders' Meeting held on April 29, 2016 authorised the Board of Directors to purchase treasury shares on the market to be allocated to the Long Term Incentive Plan 2016. 69,121,512 treasury shares were purchased. Saipem SpA holds treasury shares to the value of €69 million (€43 million at December 31, 2015), consisting of 71,061,344 ordinary Saipem shares (1,939,832 at December 31, 2015).

At March 16, 2017, share capital amounted to €2,191,384,693. On the same day, the number of shares in circulation was 10,038,713,052.

Long-term Monetary Incentive Scheme

The Board of Directors, following a proposal by the Compensation and Nomination Committee, voted in favour of submitting on the next Shareholders' Meeting the proposal to authorise the purchase of treasury shares, up to a maximum of 84,000,000 ordinary shares (except for the effects of the stock split) and, not exceeding the maximum amount of €50,000,000, to be allocated in 2017 as stipulated in the Long Term Incentive Plan 2016-2018 ('Plan') approved by the shareholders on April 29, 2016 which provides for the free allocation of ordinary Saipem SpA shares (so called Performance Shares) with effect from July 2016 for three assignments annually, each subject to a vesting period of three years. Authorisation to purchase treasury shares is requested for a period of eighteen months from the date of the resolution of the Shareholder's Meeting.

The purchase can be made, in the gradual steps deemed most appropriate, at a maximum and minimum unit price equal to the benchmark price on the electronic trading market on the day prior to the actual purchase (more or less 5% respectively for the maximum and the minimum) and in any case at a price that does not exceed the highest price between the price of the last independent trade and the highest current bid price on the trading venues where the purchase is made.

Bond issue

On June 27, 2016, the Saipem Board of Directors voted the issue, to be effected over

a maximum time frame of one year beginning June 28, 2016, of non-convertible bonds for a total maximum amount of €1.6 billion, within the scope of the Euro Medium Term Notes Programme (EMTN Programme) for an overall amount of €2 billion or, alternatively, in the case of bonds issued by the subsidiary Saipem Finance International BV, the provision of a guarantee by Saipem to bond subscribers.

The Board of Directors has assigned the Chief Executive Officer the power to determine the amount and the terms and conditions of each bond issuance in accordance with the general parameters of the EMTN programme.

The proceeds from the EMTN programme will be used primarily to pay back the Bridge-to-Bond facility of €1,600 million by the maturity date of July 1, 2017, unless the Company exercises its option to extend it to January 1, 2018. BNP Paribas and Unicredit act as Joint Arrangers of EMTN programme. On September 1, 2016, Saipem placed a fixed rate bond issue in two tranches at 4.5 and 7 years, for a total nominal value of €1 billion. Both issues were made by Saipem Finance International BV under the existing EMTN programme (Euro Medium Term Notes). The bond issue with a duration of 4.5 years amounts to €500 million and pays an annual coupon of 3.0% while the bond issue with a duration of 7 years amounts to €500 million and pays an annual coupon of 3.75%. The bonds, listed on the Euro MTF of the Luxembourg Stock Exchange, were purchased by institutional investors mainly in France, Germany, Italy and the UK. The proceeds from the bond issue were used to partially pay back the Bridge-to-Bond facility.

New credit facility

On July 1, 2016, Saipem took out a new credit facility for up to €554 million which will be used for the financing or refinancing of the Company's purchases of equipment and services from Norwegian exporters. The credit facility is guaranteed by Garantiinstituttet for Eksportkreditt (GIEK), the Norwegian Export Credit Guarantee Agency, and provided mainly by Citibank NA, London Branch (Citibank) and Eksportkreditt Norge AS (EK), acting as Original Lenders.

The facility will be available for utilisation by Saipem over the 24 months following the signing of the agreement and will comprise

several tranches, each with a tenor of 8.5 years. A first tranche of €195 million was paid in August 2016, and a second tranche of €93 million was dispensed in December 2016. Both tranches have been used for the partial repayment of the Bridge-to-Bond line of credit.

Each tranche has an annual interest rate based on either Euribor or CIRR, with an estimated average cost of about 2% per year. Citibank, NA, London Branch facilitated the arrangement by serving as Mandated Lead Arranger, and Citibank Europe Plc acted as Facility Agent.

Consob Regulation on Markets

Article 36 of Consob Regulation on Markets (adopted by Consob Resolution No. 16191/2007 as amended): conditions for listing of parent companies, companies established and regulated under the laws of states not belonging to the European Union

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 that are deemed to be of material significance in relation to the consolidated financial statements:

- i. as at December 31, 2016, the regulatory provisions of Article 36 of the Regulation on Markets applied to the following 20 subsidiaries:
 - Saudi Arabian Saipem Ltd;
 - Petrex SA;
 - Snamprogetti Saudi Arabia Ltd;
 - Saipem America Inc;
 - Saipem Contracting (Nigeria) Ltd;
 - PT Saipem Indonesia;
 - Saipem Asia Sdn Bhd;
 - Saipem do Brasil Serviços de Petróleo Ltda;
 - Boscongo SA;
 - Saimexicana Sa de Cv;
 - Saipem Canada Inc;
 - Saipem Services Mexico SA de Cv;
 - Saipem Misr for Petroleum Services (S.A.E.);
 - Sigurd Rück AG;
 - Sajer Iraq for Petroleum Services, Trading, General Contracting & Transport Llc;
 - Saipem Offshore Norway AS;
 - Saipem Drilling Norway AS;
 - Snamprogetti Engineering & Contracting Co Ltd;
 - ER SAI Caspian Contractor Llc;
 - Global Petroprojects Services AG.
- ii. Procedures designed to ensure full compliance with the aforementioned regulations have been adopted.

Article 37 of Consob Regulation on Markets: conditions preventing the admission to trading on an Italian regulated market of the shares of subsidiaries subject to management and coordination by another company

As already explained in the 2015 Annual Report, on October 27, 2015 Eni announced that, along with CDP Equity SpA, it had entered into a sale and purchase agreement by which Eni undertook to sell a holding of 12.503% of the ordinary share capital of Saipem, amounting to 55,176,364 Saipem ordinary shares, as well as a shareholders' agreement for governing the mutual relationship between Eni and CDP Equity SpA as shareholders of the Issuer (the 'Sale'). With a communication dated October 27, 2015, Eni stated that, by effect of the loss of sole control over Saipem resulting from the conclusion of the Sale, the residual Eni holding of the Company amounting to 30.42% of the Saipem ordinary share capital will be deconsolidated with effect from the effective date of the Sale and recognised in the financial statements using the net equity method.

As indicated in the shareholders' agreement between Eni and CDP Equity SpA, as of the effective date of the Sale, neither Eni nor CDP Equity SpA will have 'sole control of Saipem pursuant to Article 93 of TUF'.

Owing to the shareholder structure deriving from the entry into force as of January 22, 2016 of the Shareholders' Agreement between Eni and CDP Equity SpA, aimed at 'realising joint control of Saipem by Eni and CDP Equity SpA', from January 22, 2016 Saipem ceased to be under the direction and coordination of Eni SpA pursuant to Article 2497 et seq of the Italian Civil Code. Since that date the Company is no longer subject to verification of the conditions under Article 37 of Consob Regulation No. 16191 of October 29, 2007, for listing shares of subsidiary companies.

Transactions with the parent company and companies subject to Saipem's direction and coordination

As described in the previous paragraph and owing to the shareholder structure deriving from the entry into force of the Shareholders' Agreement between Eni and CDP Equity SpA, aimed at 'realising joint control of Saipem by Eni and CDP Equity SpA', from January 22, 2016 Saipem ceased to be under the direction and coordination of Eni SpA pursuant to Article 2497 et seq of the Italian Civil Code.

Disclosure of transactions with related parties

Transactions concluded by Saipem with related parties, identified by IAS 24, essentially regard the exchange of goods, the supply of services, the provision and utilisation of financial resources including entering into derivatives contracts. All such transactions are an integral part of ordinary day-to-day business and are carried out on an arm's length basis (i.e. at conditions which would be applied between independent parties) and in the interest of Group companies.

Directors 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.

At December 31, 2016, 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 et seq of the Italian Civil Code. The amounts of trade, financial or other operations with related parties are provided in Note 44 to the consolidated financial statements.

Events subsequent to period end

Grouping of outstanding shares

The Board of Directors has resolved to propose to the Extraordinary Shareholders' Meeting, to effectuate a reverse split of shares in circulation in the ratio of 1 new ordinary share for every 10 ordinary shares held and of 1 new savings share for each 10 savings shares held, following the cancellation of a minimum number of savings shares needed to facilitate the regular execution of the reverse split and the subsequent modification of Article 5 of the Articles of Association. Once approved by the Extraordinary Shareholders' Meeting, the reverse stock split shall be carried out according to time frames and methods to be agreed upon with Borsa Italiana SpA and the other competent authorities, and at any rate by June 30, 2017.

Issuance of fixed rate non-convertible bond

On March 29, 2017, Saipem successfully launched a fixed rate bond issue with 5-year tenor for a total amount of €500 million. The notes are issued by Saipem Finance International BV under the Euro Medium Term Notes Programme (EMTN Programme). The 5-year bond pays a fixed annual coupon of 2.75%. The re-offer price is 100.0%. The notes will be listed on the Euro MTF of the Luxembourg Stock Exchange and have been purchased by institutional investors mainly in Italy, the UK, France, Germany and Switzerland.

The proceeds of the bond will be used to partially pre-pay the term loan facility of €1.6 billion.

Outlook

Despite encouraging signals that the oil price is stabilising, Saipem's reference market has not shown any signs of recovery in relation to the assumptions made in the Strategic Plan approved in October 2016. The previously announced guidance for 2017 is therefore confirmed as follows:

- revenues: approximately €10 billion;
- EBITDA: approximately €1 billion;
- net profit: greater than €200 million (inclusive of approximately €30 million for reorganisation costs);
- capital expenditure: approximately €0.4 billion;
- net debt: approximately €1.4 billion.

Non-GAAP measures

This section provides information regarding the composition of performance indicators, even if not envisaged by IFRS (Non-GAAP measures), used in the management report. Non-GAAP measures are disclosed to enhance the user's understanding of the Group's performance and are not intended to be considered as a substitute for IFRS measures.

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

- cash flow: the sum of net profit plus depreciation and amortisation;
- capital expenditure: calculated by excluding investments in equity interests from total investments;
- EBITDA: a useful measure for evaluating the operating performance of the Group as a whole and of the individual sectors of activity, in addition to operating profit. EBITDA is an intermediate measure, which is calculated by adding depreciation and amortisation to operating profit;
- non-current assets: the sum of net tangible assets, net intangible assets and investments;
- net current assets: includes working capital and provisions for contingencies;
- net capital employed: the sum of non-current assets, working capital and the provision for employee benefits;
- funding: shareholders' equity, non-controlling interests 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.

Secondary offices

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

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

Reclassified balance sheet

	(€ million)		Dec. 31, 2015		Dec. 31, 2016	
			Partial amounts from reclassified scheme	Amounts from reclassified scheme	Partial amounts from reclassified scheme	Amounts from reclassified scheme
Reclassified balance sheet items (where not stated otherwise, items comply with statutory scheme)						
A) Net tangible assets				7,287		5,192
<i>Note 8 - Property, plant and equipment</i>			7,287		5,192	
B) Net intangible assets				758		755
<i>Note 9 - Intangible assets</i>			758		755	
C) Investments				134		147
<i>Note 10 - Investments accounted for with the equity method</i>			135		149	
<i>Reclassified from E) - provisions for losses related to investments</i>			(1)		(2)	
D) Working capital				1,178		713
<i>Note 3 - Trade and other receivables</i>			3,348		3,020	
<i>Reclassified to I) - financing receivables not related to operations</i>			(30)		(2)	
<i>Note 4 - Inventories</i>			2,286		2,242	
<i>Note 5 - Current tax assets</i>			253		192	
<i>Note 6 - Other current tax assets</i>			376		241	
<i>Note 7 - Other current assets</i>			209		144	
<i>Note 11 - Other financial assets</i>			1		-	
<i>Reclassified to I) - financing receivables not related to operations</i>			(1)		(1)	
<i>Note 12 - Deferred tax assets</i>			460		302	
<i>Note 13 - Other non-current assets</i>			114		102	
<i>Note 15 - Trade and other payables</i>			(5,186)		(4,860)	
<i>Note 16 - Income tax payables</i>			(130)		(96)	
<i>Note 17 - Other current tax payables</i>			(268)		(265)	
<i>Note 18 - Other current liabilities</i>			(202)		(244)	
<i>Note 22 - Deferred tax liabilities</i>			(10)		(59)	
<i>Note 23 - Other non-current liabilities</i>			(42)		(3)	
E) Provisions for contingencies				(237)		(266)
<i>Note 20 - Provisions for contingencies</i>			(238)		(268)	
<i>Reclassified to C) - provisions for losses related to investments</i>			1		2	
F) Provision for employee benefits				(211)		(206)
<i>Note 21 - Provisions for employee benefits</i>			(211)		(206)	
CAPITAL EMPLOYED, NET				8,909		6,335
G) Shareholders' equity				3,474		4,866
<i>Note 25 - Saipem shareholders' equity</i>			3,474		4,866	
H) Non-controlling interests				45		19
<i>Note 24 - Non-controlling interests</i>			45		19	
I) Net debt				5,390		1,450
<i>Note 1 - Cash and cash equivalents</i>			(1,066)		(1,892)	
<i>Note 2 - Other financial assets held for trading or available for sale</i>			(26)		(55)	
<i>Note 14 - Short-term debt</i>			3,016		152	
<i>Note 19 - Long-term debt</i>			2,841		3,194	
<i>Note 19 - Current portion of long-term debt</i>			656		54	
<i>Reclassified from D) - financing receivables not related to operations (Note 3)</i>			(30)		(2)	
<i>Reclassified from D) - financing receivables not related to operations (Note 11)</i>			(1)		(1)	
FUNDING				8,909		6,335

Reclassified income statement

The only items of the reclassified income statement which differ from the statutory scheme are those stated hereafter:

- the items 'other income and revenues' (€34 million) relating to 'reimbursements for services that are not part of core operations', which are indicated in the statutory scheme under the item 'other income and revenues', have been recorded as reductions to the corresponding cost items in the reclassified income statement;
- the items 'finance income' (€867 million), 'finance expense' (-€868 million) and 'derivatives' (-€153 million), which are indicated separately under the statutory scheme, are stated under the item 'net finance expense' (-€154 million) in the reclassified income statement.

All other items are unchanged.

Reclassified cash flow statement

The only items of the reclassified cash flow statement which differ from the statutory scheme are those stated hereafter:

- the items 'depreciation and amortisation' (€684 million), 'net impairment of tangible and intangible assets' (€1,724 million), 'change in the provision for employee benefits' (-€5 million) and 'other changes' (-€177 million) and 'effect of accounting using the equity method' (-€18 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' (€2,208 million);
- the items 'interest expense' (€81 million), 'income taxes' (€445 million) and 'interest income' (-€10 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' (€516 million);
- the items regarding 'trade receivables' (€262 million), 'provisions for contingencies' (€50 million), changes in 'inventories' (€19 million), 'trade payables' (€168 million) and 'other assets and liabilities'

(€148 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' (€647 million);

- the items 'interest received' (€8 million), 'dividends received' (€1 million), 'income taxes paid net of refunds of tax credits' (-€253 million) and 'interest paid' (-€74 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' (-€318 million);
- the items relating to investments in 'tangible assets' (-€285 million) and 'intangible assets' (-€11 million), indicated separately and included in cash flow from investing activities in the statutory scheme, are shown net under the item 'capital expenditure' (-€296 million);
- the items regarding disposals of 'investments' (€3 million) and 'tangible assets' (€14 million), indicated separately and included in cash flows from disposals, are shown net under the item 'disposals and partial disposals of consolidated subsidiaries and businesses' (€17 million);
- the items relating to disposals in 'financing receivables' (€52 million), investments in 'securities' (-€29 million) and investments in 'financing receivables' (-€22 million), indicated separately and included in cash flow used in investing activities in the statutory scheme, are shown under the item 'borrowings (repayment) of debt related to financing activities' (€1 million);
- the items 'proceeds from long-term debt' (€3,228 million), 'increase (decrease) in short-term debt' (-€3,000 million) and 'repayments of long-term debt' (-€3,481 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' (-€3,253 million).

All other items are unchanged.

CONSOLIDATED FINANCIAL STATEMENTS 2016

Balance sheet

(€ million)	Note	Dec. 31, 2015		Dec. 31, 2016	
		Total	of which with related parties ⁽¹⁾	Total	of which with related parties ⁽¹⁾
ASSETS					
Current assets					
Cash and cash equivalents	(No. 1)	1,066	177	1,892	-
Other financial assets held for trading or available for sale	(No. 2)	26		55	
Trade and other receivables	(No. 3)	3,348	744	3,020	663
Inventories	(No. 4)	2,286		2,242	
Current tax assets	(No. 5)	253		192	
Other current tax assets	(No. 6)	376		241	
Other current assets	(No. 7)	209	79	144	1
Total current assets		7,564		7,786	
Non-current assets					
Property, plant and equipment	(No. 8)	7,287		5,192	
Intangible assets	(No. 9)	758		755	
Investments accounted for using the equity method	(No. 10)	135		148	
Other investments	(No. 10)	-		1	
Other financial assets	(No. 11)	1		-	
Deferred tax assets	(No. 12)	460		302	
Other non-current assets	(No. 13)	114	12	102	1
Total non-current assets		8,755		6,500	
TOTAL ASSETS		16,319		14,286	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term debt	(No. 14)	3,016	2,781	152	-
Current portion of long-term debt	(No. 19)	656	643	54	-
Trade and other payables	(No. 15)	5,186	281	4,860	376
Income tax payables	(No. 16)	130		96	
Other current tax payables	(No. 17)	268		265	
Other current liabilities	(No. 18)	202	150	244	8
Total current liabilities		9,458		5,671	
Non-current liabilities					
Long-term debt	(No. 19)	2,841	2,571	3,194	-
Provisions for contingencies	(No. 20)	238		268	
Provisions for employee benefits	(No. 21)	211		206	
Deferred tax liabilities	(No. 22)	10		59	
Other non-current liabilities	(No. 23)	42	5	3	-
Total non-current liabilities		3,342		3,730	
TOTAL LIABILITIES		12,800		9,401	
SHAREHOLDERS' EQUITY					
Non-controlling interests	(No. 24)	45		19	
Saipem shareholders' equity:	(No. 25)	3,474		4,866	
- share capital	(No. 26)	441		2,191	
- share premium reserve	(No. 27)	55		1,750	
- other reserves	(No. 28)	(115)		(80)	
- retained earnings (losses)		3,942		3,161	
- net profit (loss) for the year		(806)		(2,087)	
- negative reserve for treasury shares in portfolio	(No. 29)	(43)		(69)	
Total shareholders' equity		3,519		4,885	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		16,319		14,286	

(1) For an analysis of figures shown as 'of which with related parties', see Note 44 'Transactions with related parties'.

Income statement

(€ million)	Note	2015		2016	
		Total	of which with related parties ⁽¹⁾	Total	of which with related parties ⁽¹⁾
REVENUES					
Net sales from operations	(No. 32)	11,507	1,699	9,976	1,451
Other income and revenues	(No. 33)	13		34	
Total revenues		11,520		10,010	
Operating expenses					
Purchases, services and other costs	(No. 34)	(8,789)	(304)	(7,319)	(183)
Payroll and related costs	(No. 35)	(2,222)	(1)	(1,782)	-
Depreciation, amortisation and impairment	(No. 36)	(960)		(2,408)	
Other operating income (expense)	(No. 37)	(1)	(1)	-	-
OPERATING RESULT		(452)		(1,499)	
Finance income (expense)					
Finance income		1,053	-	867	94
Financial expenses		(1,206)	(171)	(868)	(111)
Derivative financial instruments		(91)	(85)	(153)	(311)
Total finance income (expense)	(No. 38)	(244)		(154)	
Income (expense) from investments					
Share of profit (loss) of equity accounted investments		16		18	
Other income from investments		18		-	
Total income (expense) from investments	(No. 39)	34		18	
RESULT BEFORE INCOME TAXES					
		(662)		(1,635)	
Income taxes	(No. 40)	(127)		(445)	
NET PROFIT (LOSS) FOR THE YEAR		(789)		(2,080)	
Attributable to:					
- Saipem		(806)		(2,087)	
- non-controlling interests	(No. 41)	17		7	
Earnings (losses) per share attributable to Saipem (€ per share)					
Basic earnings (losses) per share	(No. 42)	(1.83)		(0.25)	
Diluted earnings (losses) per share	(No. 42)	(1.83)		(0.25)	

(1) For an analysis of figures shown as 'of which with related parties', see Note 44 'Transactions with related parties'.

Statement of comprehensive income

(€ million)	2015	2016
Net profit (loss) for the year	(789)	(2,080)
Other items of comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Remeasurements of defined benefit plans for employees	3	1
Share of other comprehensive income of investments accounted for using the equity method relating to remeasurements of defined benefit plans	-	(1)
Income tax relating to items that will not be reclassified	(2)	(1)
	1	(1)
<i>Items that will be reclassified subsequently to profit or loss</i>		
Change in the fair value of cash flow hedges	(1)	125
Variation of the fair value of equity investments held as fixed assets	-	1
Exchange rate differences arising from the translation into euro of financial statements currencies other than the euro	100	(37)
Income tax relating to items that will be reclassified	8	(37)
	107	52
Total other items of comprehensive income net of taxation	108	51
Total comprehensive income (loss) for the year	(681)	(2,029)
Attributable to:		
- Saipem Group	(702)	(2,039)
- non-controlling interests	21	10

Statement of changes in shareholders' equity

	Saipem shareholders' equity													
(€ million)	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Cash flow hedge reserve, net of tax	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings (losses)	Net profit (loss) for the year	Negative reserve for treasury shares in portfolio	Total	Non-controlling interests	Total shareholders' equity
Balance at December 31, 2013	441	55	7	88	-	85	(100)	(5)	4,283	(159)	(43)	4,652	92	4,744
2014 net profit (loss)	-	-	-	-	-	-	-	-	-	(230)	-	(230)	(8)	(238)
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 tax	-	-	-	-	-	-	-	(15)	-	-	-	(15)	(1)	(16)
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	-	-	-	-	-	-	-	(14)	-	-	-	(14)	(1)	(15)
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	-	-	-	-	-	(359)	-	-	-	-	-	(359)	(3)	(362)
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	92	-	(4)	-	-	88	6	94
Share of other comprehensive income of investments accounted for using the equity method	-	-	(1)	-	-	-	-	-	-	-	-	(1)	-	(1)
Total	-	-	(1)	-	-	(359)	92	-	(4)	-	-	(272)	3	(269)
Total comprehensive income (loss) for 2014	-	-	(1)	-	-	(359)	92	(14)	(4)	(230)	-	(516)	(6)	(522)
Transactions with shareholders														
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	(45)	(45)
Retained earnings (losses)	-	-	-	-	-	-	-	-	(159)	159	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	(159)	159	-	-	(45)	(45)
Other changes in shareholders' equity														
Expired stock options	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Other changes	-	-	-	-	-	(1)	(1)	-	4	-	-	2	-	2
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	(1)	(1)	-	3	-	-	1	-	1
Balance at December 31, 2014	441	55	6	88	-	(275)	(9)	(19)	4,123	(230)	(43)	4,137	41	4,178
2015 net profit (loss)	-	-	-	-	-	-	-	-	-	(806)	-	(806)	17	(789)
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 tax	-	-	-	-	-	-	-	-	-	-	-	-	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
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	-	-	-	-	-	8	-	-	-	-	-	8	(1)	7
Currency translation differences of financial statements currencies other than euro	-	-	-	-	-	-	85	-	11	-	-	96	4	100
Share of other comprehensive income of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Saipem shareholders' equity

(€ million)	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Cash flow hedge reserve, net of tax	Cumulative currency translation differences	Employee defined benefits reserve, net of tax	Retained earnings (losses)	Net profit (loss) for the year	Negative reserve for treasury shares in portfolio	Total	Non-controlling interests	Total shareholders' equity
Total	-	-	-	-	-	8	85	-	11	-	-	104	3	107
Total comprehensive income (loss) for 2015	-	-	-	-	-	8	85	-	11	(806)	-	(702)	21	(681)
Transactions with shareholders														
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	(17)	(17)
Retained earnings (losses)	-	-	-	-	-	-	-	-	(230)	230	-	-	-	-
Contribution from non-controlling interests Snamprogetti Engineering & Contracting Co Ltd	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Total	-	-	-	-	-	-	-	-	(230)	230	-	-	(16)	(16)
Other changes in shareholders' equity														
Expired stock options	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Other changes	-	-	-	-	-	-	-	1	2	-	-	3	(1)	2
Transactions with companies under common control	-	-	-	-	-	-	-	-	37	-	-	37	-	37
Total	-	-	-	-	-	-	-	1	38	-	-	39	(1)	38
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 tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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)
Variations in the fair value of equity interests and securities	-	-	-	-	-	-	-	-	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 increase of share capital post tax	-	-	-	-	-	-	-	-	(47)	-	-	(47)	-	(47)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(26)	(26)	-	(26)
Total	1,750	1,695	(5)	-	-	-	-	-	(793)	806	(26)	3,427	(36)	3,391
Other changes in shareholders' equity														
Expired stock options	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value Grant Plan 2016	-	-	-	-	-	-	-	-	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

Cash flow statement

(€ million)	Note	2015	2016
Net profit (loss) for the year		(806)	(2,087)
Non-controlling interests		17	7
Adjustments to reconcile net profit (loss) for the year to net cash provided by operating activities:			
- depreciation and amortisation	(No. 36)	741	684
- net impairment of tangible and intangible assets	(No. 36)	219	1,724
- share of profit (loss) of equity accounted investments	(No. 39)	(16)	(18)
- net (gains) losses on disposal of assets		(18)	5
- interest income		(9)	(10)
- interest expense		200	81
- income taxes	(No. 40)	127	445
- other changes		(18)	(177)
Changes in working capital:			
- inventories		242	19
- trade receivables		112	262
- trade payables		(716)	168
- provisions for contingencies		30	50
- other assets and liabilities		(136)	148
<i>Cash flow from working capital</i>		<i>(468)</i>	<i>647</i>
Change in the provision for employee benefits		(21)	(5)
Dividends received		1	1
Interest received		14	8
Interest paid		(204)	(74)
Income taxes paid net of refunds of tax credits		(266)	(253)
Net cash provided by operating activities		(507)	978
<i>of which with related parties</i> ⁽¹⁾	(No. 44)	1,144	1,114
Investing activities:			
- tangible assets	(No. 8)	(550)	(285)
- intangible assets	(No. 9)	(11)	(11)
- investments	(No. 10)	(1)	-
- securities		(18)	(29)
- financing receivables		(1)	(22)
- change in payables and receivables relating to investments		1	(1)
<i>Cash flow from investing activities</i>		<i>(580)</i>	<i>(348)</i>
Disposals:			
- tangible assets		12	14
- consolidated subsidiaries and businesses		46	-
- investments		97	3
- securities		1	-
- financing receivables		29	52
<i>Cash flows from disposals</i>		<i>185</i>	<i>69</i>
Net cash used in investing activities ⁽²⁾		(395)	(279)
<i>of which with related parties</i> ⁽¹⁾	(No. 44)	62	2
Proceeds from long-term debt		457	3,228
Repayments of long-term debt		(905)	(3,481)
Increase (decrease) in short-term debt		818	(3,000)
		370	(3,253)
Net capital contributions by non-controlling interests		1	3,435
Dividend distribution		(17)	(36)
Net purchase of treasury shares		-	(26)
Net cash from financing activities		354	120
<i>of which with related parties</i> ⁽¹⁾	(No. 44)	464	(5,995)
Effect of changes in consolidation		(2)	-
Effect of exchange rate changes and other changes on cash and cash equivalents		14	7

(1) For an analysis of figures shown as 'of which with related parties', see Note 44 'Transactions with related parties'.

cont'd **Cash flow statement**

(€ million)	Note	2015	2016
Net cash flow for the year		(536)	826
Cash and cash equivalents - beginning of year	(No. 1)	1,602	1,066
Cash and cash equivalents - end of year	(No. 1)	1,066	1,892

(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)	2015	2016
Financing investments:		
- securities	(18)	(29)
- financing receivables	-	(21)
	(18)	(50)
Disposal of financing investments:		
- securities	1	-
- financing receivables	29	51
	30	51
Net cash flows from investments/disposals related to financing activities	12	1

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The consolidated financial statements 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. 38/2005². 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, 2016 approved by Saipem's Board of Directors at the meeting of March 16, 2017, 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.

PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements include the financial statements of Saipem SpA and of its direct and indirect subsidiaries in Italy and abroad. 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 impact³ on the correct representation of the Group's total assets,

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

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

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

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

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

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 loss⁴. 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 2016, 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

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

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

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

Investments in associates

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

Consolidated companies, non-consolidated subsidiaries, joint ventures, investments in joint

operations and associates are indicated in the section 'Scope of consolidation'. After this section, there follows a list detailing the changes in the consolidation area from the previous year. Financial statements of consolidated companies are audited by independent auditors, who also examine and certify the information required for the preparation of the consolidated financial statements.

Equity method of accounting

Investments in subsidiaries excluded from consolidation, in joint ventures and in associates are accounted for using the equity method⁵.

When applying the equity method of accounting, investments are initially entered at purchase cost, attributing, similarly to the rules for business combinations, any difference between the cost incurred and the share in the fair value of the identifiable net assets of the investee company; the allocation, if any, of this difference, carried out as a provisional measure on the initial date of recognition, is retrospectively adjusted within the next twelve months to reflect new information obtained about facts and circumstances that existed as of the acquisition date. 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 (see also 'Current financial assets'), the recoverability is tested by comparing the carrying amount and the related recoverable amount determined adopting the criteria indicated in the item 'Tangible assets'. If it does not result in a misrepresentation of the Company's financial condition and consolidated results, subsidiaries excluded from consolidation, joint ventures and associates are accounted for at cost, adjusted for impairment charges. When an impairment loss no longer exists, a reversal of the impairment loss is recognised in the income statement within 'Other income (expense) from investments'.

A disposal of interests that results in a loss of joint control or significant influence causes recognition in the income statement of: (i) any gains or losses calculated as the difference between the consideration received and the carrying amount of the share of net assets disposed of; (ii) any gains or losses attributable to

(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.

the adjustment of any investment retained at its fair value⁶; (iii) any amounts recognised in other comprehensive income in relation to the investee that may be reclassified subsequently to profit or loss⁷. Any investment retained in the investee is recognised at its fair value at the date when joint control or significant influence are lost and shall be accounted for in accordance with the applicable measurement criteria.

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

Business combinations

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

The shareholders' equity in consolidated companies is determined by attributing to each of the balance sheet items its fair value at the date on which control is acquired⁸, except for where International Financial Reporting Standards require otherwise. The excess of the purchase price of an acquired entity over the total fair value assigned to assets acquired and liabilities assumed is recognised as goodwill. Negative goodwill is recognised in the income statement.

In the case of partial control being obtained, the share of equity net of non-controlling interests is determined on the basis of the relevant share of current value attributed to assets and liabilities on the date on which control of the company was obtained, excluding any goodwill that can be attributed to the value (so-called partial goodwill method). Alternatively, the entire amount of goodwill is recognised that was generated by the acquisition, thus considering also the share attributable to the non-controlling interests (so-called full goodwill method); in the latter case the non-controlling interests are stated at their overall fair value, thus also including the goodwill of the non-controlling interests⁹. The choice of either the partial goodwill or the full goodwill method is made for each individual business combination.

Where control of a company is achieved in stages, the purchase cost is determined by adding the fair value of the previously held

ownership interest and the consideration paid for the additional ownership interest. Any difference between the fair value of the previous ownership interest and its carrying amount is recognised in the income statement. In addition, when control of a company is obtained, any amounts recognised in other comprehensive income in relation to the company are taken to profit or loss. Amounts that may not be reclassified to profit or loss are recognised in equity.

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

The acquisition of interests in a joint operation that represents a business is recognised, for the aspects applicable, in a similar way to that envisaged for business combinations.

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 cases, 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 the average exchange rates over the year (source: Bank of Italy).

The cumulative exchange rate differences resulting from the conversion of the financial statements of subsidiaries operating in a currency other than the euro, and deriving from the application of different exchange rates for payables and receivables, are recognised in shareholders' equity and in the income statement under the item 'Cumulative currency translation differences' (included in 'Other reserves') for the portion relating to the Group's share¹⁰. The

(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 (losses).

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

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

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

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

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

Currency	Exchange rate at Dec. 31, 2015	Exchange rate at Dec. 31, 2016	2016 average exchange rate
US Dollar	1.0887	1.0541	1.1069
British Pound Sterling	0.73395	0.85618	0.81948
Algerian Dinar	116.702	116.379	121.097
Angolan Kwanza	147.295	175.757	182.079
Argentine Peso	14.0972	16.7488	16.3420
Australian Dollar	1.4897	1.4596	1.4883
Brazilian Real	4.3117	3.4305	3.85614
Canadian Dollar	1.5116	1.4188	1.4659
Croatian Kuna	7.638	7.5597	7.53329
Egyptian Pound	8.52049	19.2105	11.07061
Ghanaian New Cedi	4.13096	4.4073	4.32703
Indian Rupee	72.0215	71.5935	74.3717
Indonesian Rupee	15,040.0	14,173.4	14,720.8
Malaysian Ringgit	4.6959	4.7287	4.58355
Nigerian Naira	216.703	332.305	285.447
Norwegian Kroner	9.603	9.0863	9.2906
Peruvian New Sol	3.70833	3.5402	3.73563
Qatari Riyal	3.96287	3.83692	4.02913
Romanian New Leu	4.524	4.539	4.49043
Russian Rouble	80.6736	64.3	74.1446
Saudi Arabia Riyal	4.08624	3.95446	4.15167
Singapore Dollar	1.5417	1.5234	1.5275
Swiss Franc	1.0835	1.0739	1.0902

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Current assets

Cash and cash equivalents

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

Inventories

Inventories, with the exception of contract work-in-progress, are 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.

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

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

Adjustments made for the economic effects of

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

When hedged by derivative contracts qualifying for hedge accounting, revenues denominated in foreign currencies are translated at the contracted rates. Otherwise, they are translated at the exchange rate prevailing at year-end. The same method is used for any costs in a foreign currency.

The valuation of work-in-progress considers all directly related costs, contractual risks and contract revision clauses, where they can be objectively determined.

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

Bidding costs are expended in the year in which they are incurred.

Current financial assets

Available-for-sale financial assets include financial assets other than derivative financial instruments, loans and receivables, held-for-trading financial assets and held-to-maturity financial assets. Held for trading financial assets and available-for-sale financial assets are measured at fair value with gains or losses recognised in the income statement under 'Finance income (expense)' and in the equity reserve¹¹ related to 'Other items of comprehensive income', respectively. In the latter case, changes in fair value recognised in equity are taken to the income statement when the asset is sold or impaired.

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

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

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

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

Non-current assets

Tangible assets

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

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

Revaluation of tangible assets is not allowed, not even in application of specific laws.

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

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

Depreciation of tangible assets commences when the asset is ready for use, i.e. when it is in the place and in the conditions necessary to be able to operate in accordance with planned method. Tangible assets are depreciated systematically at a constant rate throughout their

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

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

useful life, intended as the estimate of the period in which the asset will be used by the Company. When the tangible asset comprises more than one significant element with different useful lives, each component is depreciated separately. The depreciable amount of an asset is its cost less the estimated residual value at the end of its useful life, if this is significant and can be reasonably determined. Land is not depreciated, even where purchased with a building. Tangible assets held for sale are not depreciated but are valued at the lower of book value and fair value less costs to sell (see 'Non-current assets held for sale and discontinued operations'). Changes to depreciation/amortisation schedules related to changes in the expected future economic benefits or the residual value of an asset 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 along the useful life of the improvement itself or the lower residual duration of the lease, taking a possible renewal period into account if its occurrence only depends on the lessor and is virtually certain. Ordinary maintenance and repair expenses, not including the replacement of identifiable components and that repair but do not increase the performance of the goods, are charged to the statement of income for the year in which the expenses were incurred.

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

Value in use is the present value of the future cash flows expected to be derived from the use of the asset and, if significant and reasonably determinable, from its disposal at the end of its useful life, net of disposal costs. Cash flows are determined on the basis of reasonable and documented assumptions that represent the best estimate of the future economic conditions during the remaining useful life of the asset, giving more importance to independent assumptions. 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. The discount rate used is the Weighted Average Cost of Capital (WACC) defined on the basis of the Capital Asset Pricing Model (CAPM), in compliance with the specific risk of the Saipem business.

Value in use is determined by using post-tax cash flows discounted at a post-tax discount rate, since this method results in values similar to

those that can be obtained by discounting pre-tax cash flows at a pre-tax discount rate deriving, through an iteration process, from the result of a post-tax valuation.

Valuation is carried out for each single asset or, if the realisable value of single assets cannot be determined, for the smallest identifiable group of assets that generates independent cash inflows from their continuous use, referred to as cash generating units. If the reasons for the impairments made in the past cease to exist, the assets are revalued and the adjustment is recognised on the income statement as income from revaluation (reversal). The value of the asset is written back to the lower of the recoverable amount and the original book value before impairment, less the depreciation that would have been charged had no impairment loss been recognised.

The tangible assets are derecognised at the moment of their disposal and when no future economic benefit is expected from their use or disposal; the relative profit or loss is recognised in the income statement.

Tangible assets destined for specific operating projects, for which no further future use is envisaged due to the characteristics of the asset itself or the high usage sustained during the execution of the project, are amortised over the duration of the project.

Intangible assets

Intangible assets are identifiable assets without physical substance, controlled by the company and capable of producing future economic benefits, and goodwill acquired in business combinations. An asset is classified as intangible when management is able to distinguish it clearly from goodwill. This condition is normally met when: (i) the intangible asset arises from legal or contractual rights, or (ii) the asset is separable, i.e. can be sold, transferred, licensed, rented or exchanged, either individually or as an integral part of other assets. An entity controls an intangible asset if it has the power to obtain the future economic benefits deriving from the underlying resource and to restrict the access of others to those benefits. Intangible assets are stated at cost as determined with the criteria used for tangible assets.

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 smallest aggregate (cash generating unit) on which the company, directly or indirectly,

evaluates the return on the capital expenditure to which goodwill relates. The cash generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use, and that are largely independent of the cash inflows from other assets or groups of assets. 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 same cash generating unit, exceeds the cash generating unit's recoverable amount¹³ 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 a finite useful life that form the cash generating unit. Impairment charges against goodwill are not reversed¹⁴.

Intangible assets are eliminated at the moment of their disposal or when no future economic benefit is expected from their use or disposal; the relative profit or loss is reported in the income statement.

Costs of technological development activities

Costs of technological development activities are capitalised when the company can demonstrate that:

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

Grants related to assets

Grants related to assets are recorded as a reduction of the purchase price or production cost of the related assets when there is reasonable assurance that all the required conditions attached to them, agreed upon with government entities, will be met.

Financial fixed assets

Investments

Financial assets that are equity investments¹⁵ are measured at fair value, with changes reported in the other comprehensive income component of shareholders' equity. Changes in fair value recognised in equity are charged to the income

statement when the investment is sold or impaired.

When investments are not traded in a public market and fair value cannot be reasonably determined, investments are accounted for at cost, adjusted for impairment losses, which may not be reversed¹⁶.

Receivables and held-to-maturity financial assets

Receivables and financial assets to be held to maturity are stated at cost, represented by the fair value of the initial exchanged amount adjusted to take into account direct external costs related to the transaction (e.g. fees of agents or consultants, etc.). The initial carrying value is then adjusted to take into account capital repayments, devaluations and amortisation of the difference between the reimbursement value and the initial carrying value. Amortisation is carried out on the basis of the effective interest rate computed at initial recognition, which is the rate that exactly discounts the present value of estimated future cash flows to the initial carrying value (i.e. the amortised cost method). Receivables for finance leases are recognised at an amount equal to the present value of the lease payments and the purchase option price or any residual value; the amount is discounted at the interest rate implicit in the lease.

Any impairment is recognised by comparing the carrying value with the present value of the expected cash flows discounted at the effective interest rate computed at initial recognition or at the moment of its updating to reflect re-pricings contractually established (see also 'Current assets'). Receivables and held-to-maturity financial assets are recognised net of the provision for impairment losses. When the impairment loss is definite, the provision is used; otherwise it is released. Changes to the carrying amount of receivables or financial assets arising from amortised cost valuation are recognised as 'Finance income (expenses)'.

Assets held for sale and discontinued operations

Non-current assets and current and non-current assets included within disposal groups, whose carrying amount will be recovered principally through a sale transaction rather than through their continuing use, are classified as held for sale. This condition is considered met when the sale is highly probable and the asset or disposal group is available for immediate sale in its current condition. When the sale of a subsidiary is planned and this will lead to loss of control, all of its assets and liabilities are classified as held for sale. This applies whether or not an interest is

(13) For the definition of recoverable amount see 'Tangible assets'.

(14) Impairment charges are not reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

(15) For investments in joint ventures and associates, see 'equity method' above.

(16) Impairment charges are not reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

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, the carrying amount is therefore equal to the value deriving from the application of the equity method at the date of reclassification. Any retained portion of the investment that has not been classified as held for sale is accounted for using the equity method until the conclusion of the sale plan. After the disposal takes place, the retained interest is accounted for using the applicable measurement criteria indicated under 'Financial fixed assets - Investments', unless it continues to be accounting for using the equity method.

Any difference between the carrying amount of non-current assets and the fair value less costs to sell is taken to the income statement as an impairment loss; any subsequent reversal is recognised up to the cumulative impairment losses, including those recognised prior to qualification of the asset as held for sale.

Non-current assets and current and non-current assets included within disposal groups and classified as held for sale constitute a discontinued operation if: (i) they represent a separate major line of business or geographical area of operations; (ii) they are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; (iii) they are a subsidiary acquired with a view to resale. Profit or loss of discontinued operations, as well as any gains or losses on their disposal are reported separately in the income statement, net of any tax effects. The results of discontinued operations are also reported in the comparative figures for prior years.

Financial liabilities

Financial liabilities other than derivatives are valued at amortised cost (see 'Financial fixed assets - Receivables and held-to-maturity financial assets' above).

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset in the balance sheet when there is legal, currently exercisable right to offsetting and there is the intention to regulate the ratio on a net basis (to realise the asset and at the same time extinguish the liability).

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 to third parties. Financial liabilities are eliminated when they have been settled, or when the contractual condition has been fulfilled or cancelled or when it has expired.

Provisions for contingencies

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

When the liability regards a tangible asset, the provision is stated with a corresponding entry to the asset to which it refers and taken to the income statement through the depreciation process.

The costs that the company expects to bear to carry out restructuring plans are recognised when the company formally defines the plan and the interested parties have developed a valid expectation that the restructuring will occur.

Provisions are periodically updated to show the variations of estimates of costs, production times and actuarial rates. Increases or decreases for changes in estimates for provisions recognised in prior periods are recognised in the same income statement item used to accrue the provision, or, when a liability regards tangible assets, through an entry corresponding to the assets to which they refer, within the limits of the carrying amount. Any excess is taken to the income statement.

In the notes to the consolidated financial statements, the following contingent liabilities are described: (i) possible, but not probable obligations arising from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the

control of the company; (ii) present obligations arising from past events whose amount cannot be measured with sufficient reliability or whose settlement will probably not require an outflow of resources embodying economic benefits.

Employee benefits

Employee benefits are the remuneration paid by the company for the work done by the employee or by virtue of the termination of employment.

Post-employment benefit plans, including constructive obligations, are classified as either 'defined contribution plans' or 'defined benefit plans', depending on the economic substance of the plan as derived from its principal terms and conditions. In the first case, the company's obligation, which consists of making payments to the State or to a trust or fund, is determined on the basis of the contributions due.

The liabilities arising from defined benefit plans, net of any plan assets, are determined on the basis of actuarial assumptions and charged on an accruals basis during the employment period required to obtain the benefits.

The net interest, which is recognised in profit or loss, includes the expected return on plan assets and the interest cost. Net interest is determined by applying the discount rate for liabilities to liabilities net of any plan assets. The net interest on defined benefit plans is posted to 'Finance income (expenses)'.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses arising from changes in actuarial assumptions or from experience adjustments and the return on plan assets excluding amounts included in net interest, are recognised in the statement of other comprehensive income. Remeasurements of net defined benefit assets, excluding amounts included in net interest, are also recognised in the statement of other comprehensive income. Remeasurements of net defined benefit liabilities, recognised in the equity reserve related to other items of comprehensive income, are not subsequently reclassified to profit or loss.

Long-term benefits obligations are determined by adopting actuarial assumptions. The effects of remeasurement are taken to profit or loss in their entirety.

Treasury shares

Treasury shares are recorded at cost and as a reduction in equity. Gains or losses from the subsequent sale of treasury shares are recorded as an increase (or decrease) in equity.

Revenues

The revenues related to contract work-in-progress are recognised on the basis of contractual revenues by reference to the stage of completion of a contract measured on the cost-to-cost basis. Revenues for contract work-in-progress in a

foreign currency are recognised at the euro exchange rate on the date when the stage of completion of a contract is measured and accepted by the client. This value is adjusted to take into account exchange differences arising on derivatives that qualify for hedge accounting.

Advances are recognised at the exchange rate on the date of payment.

Requests for additional payments deriving from a change in the scope of the work are included in the total amount of revenues when it is probable that the client will approve the variation and the relevant amount. Other claims deriving, for example, from additional costs incurred for reasons attributable to the client are included in the total amount of revenues when it is probable that the counterparty will accept them. Work that has not yet been accepted is recognised at the year-end exchange rate.

Revenues associated with sales of products and services, with the exception of contract work-in-progress, are recorded when the significant risks and rewards of ownership pass to the customer or when the transaction can be considered settled and associated revenue can be reliably measured.

Revenues related to partially rendered services are recognised by reference to the stage of completion, providing this can be measured reliably and that there is no significant uncertainty regarding the collectability of the amount and the related costs. Otherwise they are recognised only to the extent of the recoverable costs incurred.

Revenues are stated at the fair value of considerations received or receivable, net of returns, discounts, rebates and bonuses, as well as directly related taxation. Payments received or to be received on behalf of third parties are not considered revenues.

Expenses

Costs are recognised when the related goods and services are sold, consumed or allocated, or when their future benefits cannot be determined.

Operating lease payments are recognised in the income statement over the length of the contract. Labour costs comprise remuneration paid, provisions made to pension funds, accrued holidays, national insurance and social security contributions in compliance with national contracts of employment and current legislation.

Given their compensatory nature, labour costs also include stock grants granted to senior managers. The instruments granted are recorded at fair value on the vesting date, plus any charges borne by the employer (social security contributions and employee termination indemnities) and are not subject to subsequent adjustments. The current portion is calculated pro-rata over the vesting and co-investment period¹⁷. The fair value assessment was carried out using the Stochastic and Black & Scholes

(17) The vesting period is the period between the date of the award and the date on which the shares are assigned. The co-investment period is the two-year period, starting from the day after the end of the vesting period, only applicable to beneficiaries recognised as strategic resources upon the achievement of the performance condition.

models, in accordance with the provisions laid down by international accounting principles, in particular IFRS 2. For stock grant plans, the fair value is shown in the item 'Payroll and related costs' as a contra entry to 'Other reserves' in equity.

The costs for the acquisition of new knowledge or discoveries, the study of products or alternative processes, new techniques or models, the planning and construction of prototypes or any other costs incurred for other scientific research activities or technological development, are generally considered current costs and expensed as incurred. These costs are capitalised (see 'Tangible assets') when they meet the requirements listed under 'Costs of technological development activities'.

Grants related to income are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

Exchange rate differences

Revenues and costs associated with transactions in currencies other than the functional currency are translated into the functional currency by applying the exchange rate at the date of the transaction.

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

Dividends

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

Income taxes

Current income taxes are determined on the basis of estimated taxable income. The estimated liability is recognised in 'Income tax payables'. Current income tax assets and liabilities are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets or liabilities are recognised for temporary differences between the carrying amounts and tax bases of assets and liabilities, based on tax rates and tax laws that have been enacted or substantively enacted for future years. Deferred tax assets are recognised when their recovery is considered probable. The recoverability of deferred taxes is considered probable when it is expected that sufficient taxable profit will be available in the periods in

which the temporary differences reverse against which deductible temporary differences can be utilised. Similarly, unused tax credits and deferred tax assets on tax losses are recognised to the extent that they can be recovered.

Income tax assets related to uncertain tax positions are recognised when it is probable that they will be recovered.

For temporary differences associated with investments in subsidiaries, associates and joint arrangements, deferred tax liabilities are not recorded if the investor is able to control the timing of the reversal of the temporary difference and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are recorded under non-current assets and liabilities and are offset at single entity level if related to offsettable taxes. The balance of the offset, if positive, is recognised under 'Deferred tax assets' and, if negative, under 'Deferred tax liabilities'.

When the results of transactions are recognised directly in shareholders' equity, current taxes, deferred tax assets and liabilities are also charged to shareholders' equity.

Derivatives

A derivative is a financial instrument which has the following characteristics: (i) its value changes in response to the changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate or other variable; (ii) it requires no initial net investment or the investment is small; (iii) it is settled at a future date. Derivatives, including embedded derivatives that are separated from the host contract, are assets 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 liabilities takes into account the issuer's own non-performance risk (see 'Fair value measurement').

Derivatives are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, assessed on an ongoing basis, is demonstrated to be high. When hedging instruments cover the risk of changes in the fair value of the hedged item (fair value hedge; e.g. hedging of changes in the fair value of fixed rate assets/liabilities), they are recognised at fair value, with changes taken to the income statement. Hedged items are accordingly adjusted to reflect, in the income statement, changes in their fair value attributable to the hedged risk, even where the type of financial instrument in question would require the application of a different measurement criteria.

A cash flow hedge is a hedge of the exposure to variability in cash flows that could affect profit or loss and that is attributable to a particular risk associated with a recognised asset or liability (such as future interest payments on variable rate debt) or a highly probable forecast transaction, such as project income/costs.

The effective portion of changes in fair value of derivatives designated as hedges under IAS 39 is recorded initially in a hedging reserve related to other items of comprehensive income. This reserve is recognised in the income statement in the period in which the hedged item affects profit or loss.

The ineffective portion of changes in fair value of derivatives, as well as the entire change in fair value of those derivatives not designated as hedges or that do not meet the criteria set out in IAS 39, are taken directly to the income statement under 'Financial income (expenses)'.

Changes in the fair value of derivatives which do not satisfy the conditions for being qualified as hedges are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and foreign currency derivatives 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)'.

Embedded derivatives in hybrid instruments are separated from the main contract and recognised separately if the hybrid instrument is not evaluated overall at fair value with the recognition of the effects in the income statement and if the characteristics and risks of the derivative are not closely connected to those of the main contract. The test for the existence of embedded derivatives that must be separated and stated is run at the moment in which the company becomes part of the contract and subsequently in the presence of amendments to the contract conditions that cause significant variations in the cash flows generated by the amendments.

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 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 assumes the transaction to sell the asset or transfer the liability occurs in a principal market or, in the absence of a principal market, in the most advantageous market to which the entity has access. It does not consider an entity's intent to sell the asset or transfer the liability.

Fair value measurements of non-financial assets take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market operator that would use the asset in its highest and best use. The highest and best use is

determined from the perspective of market participants, even if the entity intends a different use. An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

In the absence of quoted market prices, the fair value of a financial or non-financial liability or an entity's own equity instruments is taken as the fair value of the corresponding asset held by another market participant at the measurement date.

The fair value of the financial instruments is determined by the Credit Valuation Adjustment or CVA and the risk of non-performance of a liability by the entity (so-called Debit Valuation Adjustment or DVA).

In the absence of quoted market prices, valuation techniques appropriate in the circumstances and for which sufficient data are available are used to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial statements¹⁸

Assets and liabilities of the balance sheet are classified as current and non-current. Items of the income statement are presented by nature¹⁹.

The statement of comprehensive income shows the net profit (loss) together with income and expenses that are recognised directly in equity in accordance with IFRS.

The statement of changes in shareholders' equity includes total 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

European Commission Regulation (EU) No. 2015/2173 of November 24, 2015 formally adopted the amendment to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations' ('amendment to IFRS 11'), which establishes the accounting treatment to be applied for acquisitions of initial interests or the acquisition of an additional interest in the same joint operation (whilst retaining joint control) in circumstances in which the activity of the joint operation constitutes a business, as defined in IFRS 3. Under the amendment, the interest acquired in the joint operation is recognised in accordance with the applicable provisions for business combinations, which include but are not limited to: (i) measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in other IFRSs; (ii) recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received in the balance sheet; (iii)

(18) The structure of the financial statements is the same as that used in the 2015 Annual Report.

(19) Additional information regarding financial instruments, applying the classification required by IFRS, is provided under Note 31 'Guarantees, commitments and risks - Additional information on financial instruments'.

recognising deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets or liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill; (iv) recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; (v) testing for impairment a cash generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired.

Regulation No. 2015/2406 of December 18, 2015 formally adopted the amendments to IAS 1 'Disclosure Initiative', essentially containing clarifications of the method of presenting financial statements, making explicit the reference to the concept of significance also for notes on financial statements.

European Commission Regulation (EU) No. 2015/2343 of December 15, 2015 formally adopted the document 'Annual Cycle of Improvements to IFRS 2012-2014' containing essentially technical and editing amendments to the international accounting standards.

The approval regulations cited above provided for the implementation of amendments to relevant accounting principles starting from the year beginning on or after January 1, 2016. The application of these provisions did not produce significant effects.

The other changes to accounting principles in force as of January 1, 2016 did not produce significant effects.

Financial risks management

The main risks that Saipem is facing and actively monitoring and managing are the following:

- (i) the market risk deriving from exposure to fluctuations in interest rates and exchange rates and from exposure to commodity price volatility;
- (ii) the credit risk deriving from the possible default of a counterparty;
- (iii) the liquidity risk deriving from the risk that suitable sources of funding for the Group's operations may not be available;
- (iv) the risk connected to a possible downgrade.

Financial risks are managed in accordance with guidelines defined by the parent company, with the objective of aligning and coordinating Saipem Group policies on financial risks.

For further details on industrial risks, see the 'Risk management' section in the Directors' Report.

(i) Market risk

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

Market risk - Exchange rates

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

- individual profits, which may be significantly affected by exchange rate fluctuations on specific transactions arising from the time lag existing between the execution of a given transaction and the definition of the relevant contractual terms (economic risk) and by the conversion of foreign currency-denominated trade and financial payables and receivables (transaction risk);
- the Group's reported results and shareholders' equity, as financial statements of subsidiaries denominated in currencies other than the euro are translated from their functional currency into euro.

Saipem's foreign exchange risk management policy is to minimise economic and transactional exposures arising from foreign currency movements and to optimise the economic exchange risk connected with commodity prices. Saipem does not undertake any hedging activity for risks deriving from the translation of foreign currency denominated profits or assets and liabilities of subsidiaries that prepare financial statements in a currency other than the euro.

Saipem uses a number of different types of derivative contract to reduce economic and transaction exposure. To this end different types of derivatives (outright and swap) are used. Exchange rate derivatives are evaluated at fair value on the basis of standard market evaluation algorithms and market prices provided by specialised sources. Planning, coordination and management of this activity at Group level is the responsibility of the Saipem Finance function, which closely monitors the correlation between derivatives and their underlying flows, as well as ensuring their correct accounting representation in compliance with the International Financial Reporting Standards (IFRS).

An exchange rate sensitivity analysis was performed for those currencies other than euro for which exchange risk exposure in 2016 was highest in order to calculate the effect on the income statement and shareholders' equity of hypothetical positive and negative variations of 10% in the exchange rates.

The analysis was performed for all relevant financial assets and liabilities denominated in the currencies considered and regarded in particular the following items:

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

For exchange rate derivatives, the sensitivity analysis on fair value was conducted by comparing the conditions underlying the forward price fixed in the contract (i.e. spot exchange rate and interest rate) with spot rates and interest rate

curves corresponding to the relevant contractual maturity dates, on the basis of year-end exchange rates subjected to hypothetical positive and negative changes of 10%, with the resulting effects weighted on the basis of the notional amounts.

The analysis did not examine the effect of exchange rate fluctuations on the measurement of work-in-progress because work-in-progress does not constitute a financial asset under IAS 32. Furthermore, the Company does not use hedging methods in reference to the risk deriving from the conversion into euro of balance sheets of foreign companies that use a currency other than the euro. In consideration of the above, even if Saipem adopts a strategy for minimising currency, economic and transaction exposure by using different types of derivatives (outright and swap), it cannot completely eliminate the fact that changes in exchange rates could have a significant impact on the Group's results and the comparability of the results between individual financial years.

A positive variation in exchange rates between the

foreign currencies examined and the euro (i.e. depreciation of the euro against the other currencies) would have produced an overall effect on pre-tax profit of -€148 million (-€63 million at December 31, 2015) and an overall effect on shareholders' equity, before related tax effects, of -€287 million (-€342 million at December 31, 2015). A negative variation in exchange rates between the foreign currencies examined and the euro (i.e. appreciation of the euro against the other currencies) would have produced an overall effect on pre-tax profit of €148 million (€63 million at December 31, 2015) and an overall effect on shareholders' equity, before related tax effects, of €287 million (€342 million at December 31, 2015). The increases/decreases with respect to the previous year are essentially due to the performance of currencies at maturity dates and to variations in the financial assets and liabilities exposed to exchange rate fluctuations.

The table below shows the effects of the above sensitivity analysis on balance sheet and income statement items.

(€ million)	2015				2016			
	+10%		-10%		+10%		-10%	
	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Derivative financial instruments	(29)	(308)	29	308	(195)	(334)	195	334
Trade and other receivables	105	105	(105)	(105)	129	129	(129)	(129)
Trade and other payables	(95)	(95)	95	95	(104)	(104)	104	104
Cash and cash equivalents	8	8	(8)	(8)	22	22	(22)	(22)
Short-term debt	(46)	(46)	46	46	-	-	-	-
Medium/long-term debt	(6)	(6)	6	6	-	-	-	-
Total	(63)	(342)	63	342	(148)	(287)	148	287

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

(€ million)	Currency	Dec. 31, 2015			Dec. 31, 2016		
		Total	Δ -10%	Δ +10%	Total	Δ -10%	Δ +10%
Receivables							
	USD	970	(97)	97	1,143	(114)	114
	JPY	23	(2)	2	3	(1)	1
	SGD	-	-	-	35	(4)	4
	KWD	-	-	-	32	(3)	3
	PLN	8	(1)	1	32	(3)	3
	AED	20	(2)	2	21	(2)	2
	NOK	20	(2)	2	13	(1)	1
	Other currencies	8	(1)	1	9	(1)	1
Total		1,049	(105)	105	1,288	(129)	129
Payables							
	USD	679	68	(68)	746	75	(75)
	GBP	70	7	(7)	37	4	(4)
	AED	36	4	(4)	27	3	(3)
	SGD	33	3	(3)	101	10	(10)
	NOK	28	3	(3)	31	3	(3)
	JPY	6	1	(1)	27	3	(3)
	AUD	20	2	(2)	1	-	-
	KWD	20	2	(2)	28	3	(3)
	PLN	20	2	(2)	14	1	(1)
	Other currencies	39	3	(3)	31	2	(2)
Total		951	95	(95)	1,043	104	(104)

Market risk - Interest rate

Interest rate fluctuations influence the market value of the Company's financial asset and the level of net finance expense, since some loans are agreed on variable interest rate basis.

The objective of the risk management process is to minimise the interest rate risk by pursuing financial structure objectives defined and approved by the Management.

When loans at variable rates are stipulated, the Finance function of Saipem Group evaluates their consistency with market standards and, when necessary, intervenes to mediate interest rate changes through Interest Rate Swap (IRS) operations. Planning, coordination and management of this activity at Group level is the responsibility of the Saipem Finance function, which closely monitors the correlation between derivatives and their underlying flows as well as ensuring their correct accounting representation in compliance with the International Financial Reporting Standards (IFRS). Although Saipem adopts a strategy targeted at minimising its exposure to interest rate risk through the pursuit of financial structure objectives defined, it is not to be excluded that interest rate fluctuations could significantly influence the Group's results and the comparability of the results of individual financial years.

Interest rate derivatives are evaluated by the Finance function at fair value on the basis of standard market evaluation algorithms and market prices provided by specialised sources. To measure sensitivity to interest rate risk, a sensitivity analysis was performed. The analysis calculated the effect on the income statement and shareholders' equity of hypothetical positive and negative variations of 10% in interest rates.

The analysis was performed for all relevant financial assets and liabilities exposed to interest

rate fluctuations and regarded in particular the following items:

- interest rate derivatives;
 - cash and cash equivalents;
 - short and long-term financial liabilities.
- For interest rate derivatives, the sensitivity analysis on fair value was conducted by comparing the interest rate conditions (fixed and variable rate) underlying the contract and used to calculate future interest rate differentials with discount curves for variable interest rates on the basis of period end interest rates subjected to hypothetical positive and negative changes of 10%, with the resulting changes weighted on the basis of the notional amounts. For cash and cash equivalents, the analysis used the average balance for the year and the average rate of return for the year, while for short and long-term financial liabilities, the average exposure for the year and average interest rate for the year were considered.

A positive variation in interest rates would have produced an overall effect on pre-tax profit of -€5 million (-€13 million at December 31, 2015) and an overall effect on shareholders' equity, before related tax effects, of -€4 million (-€13 million at December 31, 2015). A negative variation in interest rates would have produced an overall effect on pre-tax profit of €5 million (€13 million at December 31, 2015) and an overall effect on shareholders' equity, before related tax effects, of €4 million (€13 million at December 31, 2015).

The increases/decreases with respect to the previous year are essentially due to the performance of interest rates at maturity dates and to variations in the financial assets and liabilities exposed to interest rate fluctuations.

The table below shows the effects of the above sensitivity analysis on balance sheet and income statement items.

	2015				2016			
	+10%		-10%		+10%		-10%	
	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity	Income statement	Shareholders' equity
(€ million)								
Cash and cash equivalents	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	1	-	(1)
Short-term debt	(8)	(8)	8	8	(2)	(2)	2	2
Medium/long-term debt	(5)	(5)	5	5	(3)	(3)	3	3
Total	(13)	(13)	13	13	(5)	(4)	5	4

Market risk - Commodity

Saipem's results are affected by changes in the prices of oil products (fuel oil, lubricants, bunker oil, etc.) and raw materials, since they represent associated costs in the running of vessels, offices and yards and the implementation of projects and investments.

In order to reduce its commodity risk, in addition to adopting solutions at a commercial level, Saipem also trades over the counter derivatives (swap and bullet swaps in particular) whose underlying commodities are oil products (mainly gasoil and naphtha) on the organised ICE and

NYMEX markets where the relevant physical commodity market is well correlated to the financial market and is price efficient.

As regards commodity price risk management, derivative instruments on commodities are entered into by Saipem to hedge underlying contractual commitments. Hedge transactions may also be entered into in relation to future underlying contractual commitments, provided these are highly probable. Despite the hedging instruments adopted by the Company to control and manage price risks, Saipem cannot guarantee that they will be either efficient or adequate or that

in future it will still be able to use such instruments. Commodity derivatives are evaluated at fair value by the Finance function on the basis of standard market evaluation algorithms and market prices provided by specialised sources.

With regard to commodity risk hedging instruments, a 10% positive variation in the underlying rates would have produced no effect on pre-tax profit, while it would have produced an effect on shareholders' equity, before related tax effects, of €1 million. A 10% negative variation in the underlying rates would have produced no effect on pre-tax profit, while it would have produced an effect on shareholders' equity, before related tax effects, of -€1 million.

The increase (decrease) with respect to the previous year is essentially due to the differences between the prices used in calculating the fair value of the instrument at the two reference dates.

(ii) Credit risk

Credit risk represents Saipem's exposure to potential losses deriving from the non-performance of counterparties. As regards counterparty risk in commercial contracts, credit management is the responsibility of the business units and of specific corporate finance and administration functions operating on the basis of standard business partner evaluation and credit worthiness procedures. For counterparty financial risk deriving from the investment of surplus liquidity, from positions in derivative contracts and from physical commodities contracts with financial counterparties, Group companies adopt guidelines issued by the Finance function of Saipem in compliance with the centralised treasury model of Saipem. In spite of the measures implemented by the Company in order to avoid concentrations of risk and/or assets and for identifying the parameters and conditions within which hedging instruments can operate, in light of the critical financial market situation, it is not possible to exclude the possibility that one or the Group companies may delay payments, or fail to make payments, within the defined terms and conditions. A possible delay or non-payment of the amounts due by the main customers could make it difficult to perform and/or complete the orders, with the need to recover the costs and expenses sustained through legal actions.

(iii) Liquidity risk

The evolution of working capital and of financial requirements is strongly influenced by the invoicing time frames for work in progress and the collection of the relevant receivables. As a result, even if the Group has implemented measures for ensuring that suitable levels of working capital and cash will be available, possible delays in the progress of projects and/or in the definition of positions being finalised with customers could have an impact on the ability and/or on the time period of the generation of cash flows.

Liquidity risk is the risk that suitable sources of

funding for the Group may not be available (funding liquidity risk), or that the Group is unable to sell its assets on the market place (asset liquidity risk), making it unable to meet its short-term financial requirements and settle its obligations. Such a situation would negatively impact the Group's results as it would result in the company incurring higher borrowing expenses to meet its obligations or under the worst of conditions the inability of the company to continue as a going concern. The objective of the Group's risk management is to create a financial structure which, consistent with business objectives and prescribed limits, can guarantee a level of liquidity in terms of borrowing facilities and committed credit lines sufficient for the entire Group.

At present, through a flexible management of liquidity and credit lines suitable with business requirements, Saipem believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

The liquidity management policies used have the objective of ensuring both adequate funding to meet short-term requirements and obligations and a sufficient level of operating flexibility to fund Saipem's development plans, while maintaining an adequate finance structure in terms of debt composition and maturity.

Saipem has credit lines available and proper sources of funding to cover its overall financial requirements. Through the transactions carried out on the banking and capital market in the course of 2016, the Group has structured its sources of funding mainly along medium to long term deadlines with a maturity of between 3 and 8.5 years.

In particular, on June 30, 2016, Saipem signed a new credit facility for €554 million, guaranteed by Garantiinstituttet for Eksportkreditt (GIEK), the Norwegian export credit guarantee agency. This line of credit was used in the course of 2016 for €287 million. In addition to the above, on September 8, 2016, Saipem issued, under its EMTN programme, fixed-rate bonds for an overall nominal value of €1 billion divided in two tranches of €500 million each, with expiry date March 2021 and September 2023, respectively.

As at December 31, 2016, Saipem has unused credit lines of €1,650 million, to which can be added the availability of cash of €1,892 million.

In addition to the above, Saipem may use the remaining amount, equivalent to €266 million of the line guaranteed by GIEK, subject to purchases of equipment and services from Norwegian exporters.

For further information on the transactions carried out in the course of 2016, consult paragraph 'Additional information' in the Directors' Report.

(iv) Downgrading risk

On October 28, 2015, the Company obtained from Standard & Poor's Ratings Services a 'BBB-' preliminary long term corporate credit rating with

a 'stable' outlook and a 'BBB-' preliminary issue rating for the Term Facility and the Revolving Credit Facility. Furthermore, on the same date, Moody's Investor Service assigned the company a provisional issuer rating equal to '(P)Baa3' with a 'stable' outlook.

On February 4, 2016, Standard & Poor's Ratings Services informed the Company that it had formally commenced a 'Credit Watch' procedure with possible negative implications for Saipem's Preliminary Long Term Corporate Credit Rating 'BBB-', mainly because of the collapse in the price of crude which could significantly limit Saipem's financial flexibility.

On February 10, 2016, Moody's Investors Service announced that Saipem's Provisional Issuer Rating '(P)Baa3' had been placed under review for downgrading, due to the weak fundamentals of the Oil & Gas sector and the subsequent increase in the risk of cancellations and delays of projects and the reduction of investments in the industry.

On May 6, 2016, S&P Global Ratings (previously Standard & Poor's Ratings Services) lowered the Company's Long Term Corporate Credit Rating and the Issue Rating from 'BBB-' to 'BB+', with a

negative outlook, at the same time removing them from the negative 'Credit Watch' and bringing them to definite status following completion of the share capital increase and of the Company's debt refinancing. This downgrade reflected the vision of S&P Global Rating in relation to the Oil & Gas industry and a more prudent vision on Saipem's future credit parameters, together with the level of backlog orders and the ability to sustain operating cash flows without significant fall-offs.

On May 23, 2016, Moody's Investors Service lowered and converted the Provisional Issuer Rating '(P)Baa3' into a Corporate Family Rating (CFR) 'Ba1', assigning a stable outlook to all ratings. 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 the financial markets.

Finance, trade and other payables

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

(€ million)	Maturity						Total
	2017	2018	2019	2020	2021	After	
Long-term debt	54	571	914	567	545	597	3,248
Short-term debt	152	-	-	-	-	-	152
Fair value of derivative instruments	200	-	-	-	-	-	200
Total	406	571	914	567	545	597	3,600
Interest on debt	60	65	54	42	35	39	295

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

(€ million)	Maturity			Total
	2017	2018-2021	After	
Trade payables	2,770	-	-	2,770
Other payables and advances	2,090	-	-	2,090

Outstanding contractual obligations

In addition to the financial and trade debt recorded in the balance sheet, the Saipem Group has contractual obligations relating to non-cancellable operating leases whose

performance will entail payments being made in future years.

The following table shows undiscounted payments due in future years in relation to outstanding contractual obligations.

(€ million)	Maturity						Total
	2017	2018	2019	2020	2021	After	
Non-cancellable operating leases	112	94	89	83	76	224	678

The table below summarises Saipem's expenditure commitments for property, plant and

equipment, for which procurement contracts have been entered into.

(€ million)	Maturity
	2017
Committed on major projects	-
Other committed projects	66
Total	66

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.

CONTRACT WORK-IN-PROGRESS

Contract work-in-progress for long-term contracts – for which estimates necessarily have a significant subjective component – are measured on the basis of estimated revenues and costs over the full life of the contract. Contract work-in-progress includes extra revenues from additional works following modifications to the original contracts if their realisation is probable and the amount can be reliably estimated.

IMPAIRMENT OF ASSETS

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

Impairment is recognised in the event of significant permanent changes in the outlook for the market segment in which the asset is used. Determining as to whether and how much an asset is impaired involves management estimates on complex and highly uncertain factors, such as future market performances, the effects of inflation and technological improvements on operating costs, and the outlook for global or regional market supply and demand conditions. The amount of an impairment loss is determined by comparing the carrying value of an asset with its recoverable amount (the higher of fair value less costs to sell and value in use calculated as the present value of the future cash flows expected to be derived from the use of the asset net of disposal costs). The expected future cash flows used for impairment reviews are based on judgemental assessments of future variables

such as prices, costs, demand growth rate and production volumes, considering the information available at the date of the review and are discounted at a rate that reflects the risk inherent in the relevant activity. 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 cash-generating unit level, i.e. the smallest aggregate on which the company, directly or indirectly, evaluates the return on the capital expenditure. If the carrying amount of the cash generating unit, including goodwill allocated thereto, exceeds the cash generating unit's 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 to the other assets of the unit pro-rata on the basis of the carrying amount of each asset forming the cash generating unit. In allocating the impairment loss, the carrying amount of assets with a finite useful life are not reduced below their recoverable amount.

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 the said assets and liabilities at fair value. Any positive difference that cannot be allocated is recognised as goodwill. Negative residual differences are taken to the income statement. The allocation of the price set provisionally is subject to review/updating within the 12 months following the acquisition, to reflect any new information obtained about facts and circumstances that existed as of the acquisition date. In the allocation process, the Company Management uses all the information available, and, for the most important business combinations, external evaluations. The allocation process, which demands – on the basis of the information available – the exercising of a complex judgement on the part of the Company Management, is also useful for the purposes of the application of the equity method.

CONTINGENCIES

Saipem records provisions for contingencies primarily in relation to employee benefits, litigation and tax issues. 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. The inflation rates reflect 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, compared to 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.

REVENUE AND RECEIVABLE

The recoverability of the carrying amount of receivables and the need to measure a possible impairment of the same, are fruit of a process that demands complex and/or subjective judgements on the part of the Company Management. The factors considered in the making of these judgements include, among other things, the credit rating of the counterparty when available, the amount involved and the deadlines of future payments, any instruments implemented to mitigate the credit risk and any debt collection actions implemented or planned.

RECENT ACCOUNTING PRINCIPLES

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

European Commission Regulations No. 2016/1905 dated September 22, 2016, formally adopted the document IFRS 15 'Revenue from

Contracts with Customers' (IFRS 15) which sets out criteria for the evaluation and recognition of revenues arising from contracts with customers (including construction contracts). IFRS 15 requires revenue recognition to be based on the following five steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contracts; (v) recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 also requires entities to include additional disclosures in their financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with customers. The provisions of the IFRS 15 are effective for financial years starting either on or after January 1, 2018; the retroactive application of the principle is envisaged with the possibility to measure the effect on the net assets as of January 1, 2018, considering also the circumstances of the individual case on the date. In the course of financial year 2016, an activity was started up in order to identify the individual cases considered potentially critical in relation to the different types of contract, evaluate the potential impacts on the financial statements and verify the need for any adjustments to the financial information support systems. In particular, at the current state of analysis presently underway, the following areas of investigation were found to be potentially affected by the new provisions of the principle: (i) analysis of the various contractual forms in existence and of the types of costs related to them; (ii) verification of the contracts envisaging the recognition of variable amounts; (iii) verification of the presence of major contractual components requiring separate recognition of the 'time value' as a financial component; (iv) analysis of the detailed information to be provided in the notes accompanying the financial statements.

European Commission Regulation No. 2016/2067 of November 22, 2016 formally adopted the complete version of IFRS 9 'Financial Instruments (IFRS 9). In particular, the new provisions of IFRS 9: (i) change the classification and measurement model for financial assets, basing it on the characteristics of the financial instrument and on the business model adopted by the company; (ii) introduce a new impairment model for financial assets that addresses expected credit losses; (iii) bring in new hedge accounting requirements. IFRS 9 provisions are effective for annual periods beginning on or after January 1, 2018.

A project was launched to evaluate the potential impacts deriving from the application of the new standard and to decide upon the information to be provided in the notes accompanying the financial statements, with reference to the aforementioned three main areas being updated. With regard to the classification and measuring of

the financial assets and liabilities according to the new provisions, at the current state of the analysis no substantial impacts are expected in connection with the current process.

With reference to the impairment of the financial assets on the basis of the expected losses, the activities underway concern: (i) the pinpointing and development of an appropriate internal model for the evaluation of exposure to risk and the probability of default of the financial and commercial counterparties and the possible consequent impacts, of resilience and possible credit risk mitigation tools to be implemented; (ii) the defining of the operational process instrumental to ensuring the availability of the information for the drafting of the financial statements.

Lastly, with regard to the question of hedge accounting, given the management model currently adopted by the Group is judged to be consistent with the new provisions introduced by IFRS 9, an analysis has been launched to evaluate whether the innovations introduced by the new principle can have a positive impact in terms of optimisation of the level of efficiency and effectiveness of the current risk hedging model: (i) investigate the possibilities of using new hedging methods for the coverage of financial risks; (ii) verify the applicability of hedge ratio rebalancing mechanisms during coverage, in order to guarantee the dynamic re-adjustment of the relationship between coverage instruments and respective risk exposure.

At the current state of analysis, a reasonable estimate of the potential quantitative impacts deriving from the application of the new principles, IFRS 15 and IFRS 9 is not yet possible.

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

On September 11, 2014, the IASB issued amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (hereafter amendments to IFRS 10 and IAS 28), which establish requirements for accounting for gains or losses arising on the loss of control of a subsidiary that is transferred to an associate or joint venture. On December 17, 2015, IASB published the amendment that deferred indefinitely the application of the amendments to IFRS 10 and to IAS 28.

On January 13, 2016, IASB issued IFRS 16 'Leases' (hereafter, IFRS 16), which replaces IAS 17 and its relative interpretations. In particular, IFRS 16 defines leasing as a contract that provides the customer (the lessee) with the right to use an asset for a certain period of time in exchange for a payment. The new accounting standard eliminates the classification of leasings as operative or financial for the purposes of preparing the financial statements of companies

operating as lessees; for all leasing contracts with a duration that exceeds 12 months, it is necessary to recognise an asset that represents the right to its use, and a liability that represents the obligation to make the payments defined in the contract. However, for the purposes of preparing the lessor financial statements, the distinction between operative and financial leasings has been maintained. IFRS 16 strengthens the financial statement information both for the lessees, as well as for the lessors. The provisions of IFRS 16 are effective as of January 1, 2019.

In the course of the financial year 2016, an analysis activity was launched in order to identify the individual cases considered potentially critical in relation to the various types of contract, in order to assess the potential impacts on the financial statements and check any adjustments made to the financial support systems.

On January 19, 2016, IASB issued the amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses', that: (i) confirm the existence of a temporary deductible difference if the amount entered for an asset evaluated at fair value is lower than its tax basis (e.g. fixed rate security whose fair value is lower than its fiscally recognised value); (ii) allow that future taxable income takes into account the fact, based on suitable evidence that supports the probability, that some company assets are recovered at a value that is higher than what is entered in the financial statements. This event may occur in the case of a fixed-rate security stated at the balance sheet date at less than the reimbursement value, which the company intends to hold until the maturity date and for which the contractually established cash flows are expected to be collected; (iii) they specify that future taxable income to be considered for the purposes of reporting a deferred tax asset must not include tax deduction arising on the date of cancellation of the deductible timing differences; (iv) they ask, when a company evaluates the likelihood of achieving sufficient taxable income in the annual period of cancellation of the deductible timing differences, to consider possible limitations set by tax regulations to the type of taxable income in relation to which the tax deductions are made. The amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2017.

On January 29, 2016, IASB issued amendments to IAS 7 'Disclosure Initiative', which reinforces the obligations for disclosure in the case of monetary and non-monetary variations in financial liabilities. The amendments to IAS 7 are effective for annual periods beginning on or after January 1, 2017.

On April 12, 2016, the IASB issued the document 'Clarifications to IFRS 15 Revenue from Contracts with Customers' which included several amendments of a technical nature. The changes

to the principle introduce several clarifications and examples in order to facilitate their application (for example, as regards the identification of individual contractual obligations), and to simplify the transition to the new provisions in relation to completed contracts and to change orders which arise prior to the first comparative period presented.

The amendments to IFRS 15 provisions are effective for annual periods beginning on or after January 1, 2018.

On June 20, 2016, the IASB published the document 'Amendments to IFRS 2 - and Measurement of Share-based Payment Transactions', with the aim of clarifying the classification and accounting of several types of transaction with payment based on shares.

The amendments to IFRS 2 provisions are effective for annual periods beginning on or after January 1, 2018.

On December 8, 2016, IASB issued IFRIC Interpretation 22 'Foreign Currency Transactions

and Advance Consideration' (hereinafter IFRIC 22), on the basis of which the exchange rate to be used on the initial recognition of an asset, cost or revenue connected with an advance consideration, previously paid/collected, in foreign currency, is that in force on the date of recognition of the non-monetary asset/liability connected with such advance consideration. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018.

On December 8, 2016, the IASB published 'Annual Improvements to IFRS Standards 2014-2016 Cycle', which essentially consists of changes of a technical and editorial nature to existing international standards. The amendments are effective for annual periods beginning on or after January 1, 2018²⁰.

Saipem is currently reviewing these new standards to determine their likely impact on the Group's results if adopted.

(20) The amendment to IFRS 12, 'Disclosure of Interests in Other Entities', is effective for annual periods beginning on or after January 1, 2017.

Scope of consolidation at December 31, 2016

Parent company

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

Subsidiaries

Italy

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

Outside Italy

Andromeda Consultoria Tecnica e Representações Ltda	Rio de Janeiro (Brazil)	BRL	9,494,210	Saipem SpA Snamprogetti Netherlands BV	99.00 1.00	100.00	F.C.
Boscongo SA	Pointe-Noire (Congo)	XAF	1,597,805,000	Saipem SA	100.00	100.00	F.C.
ER SAI Caspian Contractor Llc	Almaty (Kazakhstan)	KZT	1,105,930,000	Saipem International BV Third parties	50.00 50.00	50.00	F.C.
ERS - Equipment Rental & Services BV	Amsterdam (Netherlands)	EUR	90,760	Saipem International BV	100.00	100.00	F.C.
Global Petroprojects Services AG	Zurich (Switzerland)	CHF	5,000,000	Saipem International BV	100.00	100.00	F.C.
Moss Maritime AS	Lysaker (Norway)	NOK	40,000,000	Saipem International BV	100.00	100.00	F.C.
North Caspian Service Co	Almaty (Kazakhstan)	KZT	1,910,000,000	Saipem International BV	100.00	100.00	F.C.
Petrex SA	Iquitos (Peru)	PEN	1,129,909,045	Saipem International BV	100.00	100.00	F.C.
Professional Training Center Llc	Karakiyon District, Mangistau Oblast (Kazakhstan)	KZT	1,000,000	ER SAI Caspian Contractor Llc	100.00	50.00	F.C.
PT Saipem Indonesia	Jakarta (Indonesia)	USD	152,778,100	Saipem International BV Saipem Asia Sdn Bhd	68.55 31.45	100.00	F.C.
SAGIO - Companhia Angolana de Gestão de Instalação Offshore Ltda	Luanda (Angola)	AOA	1,600,000	Saipem International BV Third parties	60.00 40.00	60.00	E.M.

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

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle
Saigut SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	90,050,000	Saimexicana SA de Cv	100.00	100.00	F.C.
SAIMEP Lda	Maputo (Mozambique)	MZN	70,000,000	Saipem SA Saipem International BV	99.98 0.02	100.00	F.C.
Saimexicana SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	4,033,208,200	Saipem SA	100.00	100.00	F.C.
Saipem (Beijing) Technical Services Co Ltd	Beijing (China)	USD	1,750,000	Saipem International BV	100.00	100.00	F.C.
Saipem (Malaysia) Sdn Bhd	Kuala Lumpur (Malaysia)	MYR	1,033,500	Saipem International BV Third parties	41.94 58.06	100.00	F.C.
Saipem (Nigeria) Ltd	Lagos (Nigeria)	NGN	259,200,000	Saipem International BV Third parties	89.41 10.59	89.41	F.C.
Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	Canical (Portugal)	EUR	299,278,738	Saipem International BV	100.00	100.00	F.C.
Saipem America Inc	Wilmington (USA)	USD	1,000	Saipem International BV	100.00	100.00	F.C.
Saipem Argentina de Perforaciones, Montajes y Proyectos Sociedad Anónima, Minera, Industrial, Comercial y Financiera (**)(****)	Buenos Aires (Argentina)	ARS	1,805,300	Saipem International BV Third parties	99.90 0.10	99.90	E.M.
Saipem Asia Sdn Bhd	Kuala Lumpur (Malaysia)	MYR	8,116,500	Saipem International BV	100.00	100.00	F.C.
Saipem Australia Pty Ltd	West Perth (Australia)	AUD	566,800,001	Saipem International BV	100.00	100.00	F.C.
Saipem Canada Inc	Montreal (Canada)	CAD	100,100	Saipem International BV	100.00	100.00	F.C.
Saipem Contracting (Nigeria) Ltd	Lagos (Nigeria)	NGN	827,000,000	Saipem International BV Third parties	97.94 2.06	97.94	F.C.
Saipem Contracting Algérie SpA	Algeri (Algeria)	DZD	1,556,435,000	Sofresid SA	100.00	100.00	F.C.
Saipem Contracting Netherlands BV	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV	100.00	100.00	F.C.
Saipem Contracting Prep SA	Panama (Panama)	USD	500	Saipem SA	100.00	100.00	F.C.
Saipem do Brasil Serviços de Petróleo Ltda	Rio de Janeiro (Brazil)	BRL	1,850,796,299	Saipem International BV	100.00	100.00	F.C.
Saipem Drilling Co Private Ltd	Chennai (India)	INR	50,273,400	Saipem SA	100.00	100.00	F.C.
Saipem Drilling Norway AS	Sola (Norway)	NOK	100,000	Saipem International BV	100.00	100.00	F.C.
Saipem East Africa Ltd	Kampala (Uganda)	UGX	50,000,000	Saipem International BV Third parties	51.00 49.00	51.00	E.M.
Saipem Finance International BV	Amsterdam (Netherlands)	EUR	1,000,000	Saipem International BV Saipem SpA	75.00 25.00	100.00	F.C.
Saipem India Projects Private Ltd	Chennai (India)	INR	407,000,000	Saipem SA	100.00	100.00	F.C.
Saipem Ingenieria Y Construcciones SLU	Madrid (Spain)	EUR	80,000	Saipem International BV	100.00	100.00	F.C.
Saipem International BV	Amsterdam (Netherlands)	EUR	172,444,000	Saipem SpA	100.00	100.00	F.C.
Saipem Libya LLC - SA.LI.CO. Llc	Tripoli (Libya)	LYD	10,000,000	Saipem International BV Snamprogetti Netherlands BV	60.00 40.00	100.00	F.C.
Saipem Ltd	Kingston upon Thames Surrey (United Kingdom)	EUR	7,500,000	Saipem International BV	100.00	100.00	F.C.

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

(**) In liquidation.

(***) Inactive throughout the year.

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle
Saipem Luxembourg SA	Luxembourg (Luxembourg)	EUR	31,002	Saipem Maritime Asset Management Luxembourg Sàrl Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	99.99 0.01	100.00	F.C.
Saipem Maritime Asset Management Luxembourg Sàrl	Luxembourg (Luxembourg)	USD	378,000	Saipem SpA	100.00	100.00	F.C.
Saipem Misr for Petroleum Services (S.A.E.)	Port Said (Egypt)	EUR	2,000,000	Saipem International BV ERS - Equipment Rental & Services BV Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	99.92 0.04 0.04	100.00	F.C.
Saipem Norge AS	Sola (Norway)	NOK	100,000	Saipem International BV	100.00	100.00	F.C.
Saipem Offshore Norway AS	Sola (Norway)	NOK	120,000	Saipem SpA	100.00	100.00	F.C.
Saipem SA	Montigny le Bretonneux (France)	EUR	26,488,695	Saipem SpA	100.00	100.00	F.C.
Saipem Services México SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	50,000	Saimexicana SA de Cv	100.00	100.00	F.C.
Saipem Singapore Pte Ltd	Singapore (Singapore)	SGD	28,890,000	Saipem SA	100.00	100.00	F.C.
Saipem Ukraine Llc (**)	Kiev (Ukraine)	EUR	4,206,061	Saipem International BV Saipem Luxembourg SA	99.00 1.00	100.00	F.C.
Saiwest Ltd (***)	Accra (Ghana)	GHS	937,500	Saipem SA Third parties	49.00 51.00	49.00	Co.
Sajer Iraq Co for Petroleum Services, Trading, General Contracting & Transport Llc	Baghdad (Iraq)	IQD	300,000,000	Saipem International BV Third parties	60.00 40.00	60.00	F.C.
Saudi Arabian Saipem Ltd	Al-Khobar (Saudi Arabia)	SAR	5,000,000	Saipem International BV Third parties	60.00 40.00	60.00	F.C.
Sigurd Rück AG	Zurich (Switzerland)	CHF	25,000,000	Saipem International BV	100.00	100.00	F.C.
Snamprogetti Engineering & Contracting Co Ltd	Al-Khobar (Saudi Arabia)	SAR	10,000,000	Snamprogetti Netherlands BV Third parties	70.00 30.00	70.00	F.C.
Snamprogetti Engineering BV	Schiedam (Netherlands)	EUR	18,151	Saipem Maritime Asset Management Luxembourg Sàrl	100.00	100.00	F.C.
Snamprogetti Lummus Gas Ltd (**)	Sliema (Malta)	EUR	50,000	Snamprogetti Netherlands BV Third parties	99.00 1.00	99.00	F.C.
Snamprogetti Netherlands BV	Amsterdam (Netherlands)	EUR	203,000	Saipem SpA	100.00	100.00	F.C.
Snamprogetti Romania Srl	Bucharest (Romania)	RON	5,034,100	Snamprogetti Netherlands BV Saipem International BV	99.00 1.00	100.00	F.C.
Snamprogetti Saudi Arabia Co Ltd Llc	Al-Khobar (Saudi Arabia)	SAR	10,000,000	Saipem International BV Snamprogetti Netherlands BV	95.00 5.00	100.00	F.C.
Sofresid Engineering SA	Montigny le Bretonneux (France)	EUR	1,267,143	Sofresid SA Third parties	99.99 0.01	100.00	F.C.
Sofresid SA	Montigny le Bretonneux (France)	EUR	312,253,842	Saipem SA	100.00	100.00	F.C.
Sonsub International Pty Ltd	Sydney (Australia)	AUD	13,157,570	Saipem Australia Pty Ltd	100.00	100.00	F.C.

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

(**) In liquidation.

(***) Inactive throughout the year.

Associates and jointly controlled companies

Italy

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle
ASG Scarl	San Donato Milanese	EUR	50,864	Saipem SpA Third parties	55.41 44.59	55.41	E.M.
CEPAV (Consorzio Eni per l'Alta Velocità) Due	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	52.00 48.00	52.00	E.M.
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	50.36 49.64	50.36	E.M.
Consorzio F.S.B.	Venice - Marghera	EUR	15,000	Saipem SpA Third parties	29.10 70.90	29.10	Co.
Consorzio Sapro	San Giovanni Teatino	EUR	10,329	Saipem SpA Third parties	51.00 49.00	51.00	Co.
Modena Scarl (**)	San Donato Milanese	EUR	400,000	Saipem SpA Third parties	59.33 40.67	59.33	E.M.
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

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.
CFSW LNG Constructors GP Inc (***)	Vancouver (Canada)	CAD	100	Saipem International BV Third parties	44.00 56.00	44.00	E.M.
Charville - Consultores e Serviços Lda	Funchal (Portugal)	EUR	5,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
CMS&A WII	Doha (Qatar)	QAR	500,000	Snamprogetti Netherlands BV Third parties	20.00 80.00	50.00	E.M.
CSC Japan Godo Kaisha (***)	Yokohama (Japan)	JPY	3,000,000	CCS Netherlands BV	100.00	33.33	E.M.
CSFLNG Netherlands BV	Amsterdam (Netherlands)	EUR	600,000	Saipem SA Third parties	50.00 50.00	50.00	E.M.
Hazira Cryogenic Engineering & Construction Management Private Ltd	Mumbai (India)	INR	500,000	Saipem SA Third parties	55.00 45.00	55.00	E.M.
KWANDA Suporte Logistico Lda	Luanda (Angola)	AOA	25,510,204	Saipem SA Third parties	40.00 60.00	40.00	E.M.
Mangrove Gas Netherlands BV	Amsterdam (Netherlands)	EUR	2,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Petromar Lda	Luanda (Angola)	USD	357,143	Saipem SA Third parties	70.00 30.00	70.00	E.M.
Sabella SAS	Quimper (France)	EUR	8,596,830	Sofresid Engineering SA Third parties	13.50 86.50	13.50	E.M.

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

(**) In liquidation.

(***) Inactive throughout the year.

Company	Registered office	Currency	Share capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or accounting principle
Saidel Ltd	Victoria Island - Lagos (Nigeria)	NGN	236,650,000	Saipem International BV Third parties	49.00 51.00	49.00	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 (Russian Federation)	RUB	83,603,800	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Société pour la Réalisation du Port de Tanger Méditerranée	Anjra (Morocco)	EUR	33,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
Southern Gas Constructors Ltd	Lagos (Nigeria)	NGN	10,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
SPF - TKP Omifpro Snc	Paris (France)	EUR	50,000	Saipem SA Third parties	50.00 50.00	50.00	E.M.
Sud-Soyo Urban Development Lda ^(****)	Soyo (Angola)	AOA	20,000,000	Saipem SA Third parties	49.00 51.00	49.00	E.M.
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	Porto Salvo - Concelho de Oeiras (Portugal)	EUR	700,000	Saipem SA Third parties	42.50 57.50	42.50	E.M.
T.C.P.I. Angola Tecnoprojecto Internacional SA	Luanda (Angola)	AOA	9,000,000	Petromar Lda Third parties	35.00 65.00	24.50	E.M.
TMBYS SAS	Guyancourt (France)	EUR	30,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
TSGI Mühendislik İnşaat Ltd Şirketi	Istanbul (Turkey)	TRY	600,000	Saipem Ingenieria Y Construcciones SLU Third parties	30.00 70.00	33.33	E.M.
TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	Funchal (Portugal)	EUR	5,000	TSKJ - Serviços 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 - Serviços 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 104 companies: 60 are consolidated using the full consolidation method, 2 using the working interest method, 39 using the equity method and 3 using the cost method.

At December 31, 2016, 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 Operation and their participating interests	5	55	60	1	1	2
Companies consolidated using the full consolidation method	5	55	60	-	-	-
Companies consolidated using the working interest method	-	-	-	1	1	2
Participating interests held by consolidated companies⁽¹⁾	-	4	4	8	30	38
Accounted for using the equity method	-	3	3	6	30	36
Accounted for using the cost method	-	1	1	2	-	2
Total companies	5	59	64	9	31	40

(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 2016 with respect to the consolidated financial statements at December 31, 2015. Changes are shown by order of occurrence.

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

- **Saipem Ukraine Llc**, consolidated using the full consolidation method, was placed into liquidation;
- **Consorzio FSB**, accounted for using the cost method, has redefined the holdings of the consortium members as follows: 29.10% Saipem SpA and 70.90% third parties;
- **Snamprogetti Ltd**, previously consolidated using the full consolidation method and since January 1, 2016 using the cost method due to immateriality, has been removed from the Register of Companies;
- **INFRA SpA** with registered offices in Italy, was incorporated and consolidated using the full consolidation method;
- **Saipem SA** sold 31% of the shares of Saiwest Ltd to third parties;
- **S.B.K. Baltica Società Consortile a Responsabilità Limitata Spółka Komandytowa**, previously accounted for using the cost method, was placed into liquidation and subsequently removed from the Register of Companies;
- **CFSW LNG Constructors GP Inc**, with registered offices in Canada, was incorporated and is accounted for using the equity method;

- **Moss Maritime Inc**, previously consolidated using the full consolidation method, was removed from the Register of Companies;
- **LNG - Serviços e Gestão de Projectos Lda**, previously accounted for using the equity method, was removed from the Register of Companies;
- **Baltica Scarl**, previously accounted for using the equity method, was placed into liquidation and subsequently removed from the Register of Companies;
- **Snamprogetti Lummus Gas Ltd**, consolidated using the full consolidation method, was placed into liquidation;
- **Sabella SAS**, following a capital increase, is owned as follows: 13.50% held by Sofresid Engineering SA and 86.50% by third parties;
- **Tchad Cameroon Maintenance BV**, previously accounted for using the equity method, was placed into liquidation and subsequently removed from the Register of Companies;
- **FPSO Mystras Produção de Petroleo Lda**, previously accounted for using the equity method, was removed from the Register of Companies.

Changes of company names or transfers of holdings between Group companies not affecting the scope of consolidation:

- **Saipem SpA** purchased 25% of the shares of Saipem Finance International BV from Saipem International BV;
- **Saipem SA** purchased the entire shareholding of Saipem Drilling Co Private Ltd from Saipem International BV.

CURRENT ASSETS

1 Cash and cash equivalents

Cash and cash equivalents amounted to €1,892 million, an increase of €826 million compared with December 31, 2015 (€1,066 million).

Cash and equivalents at year end, 34% of which are denominated in euro, 40% in US dollars and 26% in other currencies, received an average interest rate of 0.334%. Cash and cash equivalents included cash and cash on hand of €2 million (€1 million at December 31, 2015).

Funds in two current accounts held by the subsidiary Saipem Contracting Algérie SpA (equivalent to €83 million at December 31, 2016) have been frozen since February 2010 in connection with an investigation. Compared with December 31, 2015 (equivalent of €82 million) the €1 million increase in the frozen amount is due to exchange-rate differences (for further details, see the section 'Legal disputes - Algeria - Proceedings in Algeria', as well as Note 48 'Additional Information: Algeria').

Furthermore, the equivalent of €8 million spread over the account of a foreign branch of Saipem SpA and various accounts of a foreign subsidiary, as well as funds in time deposits belonging to three 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, 2016 by geographical area (based on the country of domicile of the relevant company) was as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Italy	63	639
Rest of Europe	418	227
CIS	191	554
Middle East	123	281
Far East	30	57
North Africa	87	85
West Africa and Rest of Africa	134	5
Americas	20	44
Total	1,066	1,892

2 Other financial assets held for trading or available for sale

Other financial assets held for trading or available for sale amounted to €55 million (€26 million at December 31, 2015) and were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Financing receivables for non-operating purposes		
Listed bonds issued by sovereign states/supranational institutions	26	26
Listed bonds issued by industrial enterprises	-	29
Total	26	55

Listed bonds issued by sovereign states/supranational institutions at December 31, 2016 of €26 million were as follows:

(€ million)	Notional amount	Fair value	Nominal rate of return (%)	Maturity	Standard & Poor's rating
Fixed rate bonds					
France	3	3	2.50	2020	AA
Ireland	4	5	5.00	2020	A+
Spain	2	2	3.75	2018	BBB+
Poland	7	8	3.75	2023	BBB+
Other	7	8	1.31-2.50	2019-2020	AAA/BBB+
Total	23	26			

Listed bonds issued by industrial enterprises at December 31, 2016 of €29 million were as follows:

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

3 Trade and other receivables

Trade and other receivables of €3,020 million (€3,348 million at December 31, 2015) were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Trade receivables	2,807	2,613
Financing receivables for operating purposes	4	3
Financing receivables for non-operating purposes	30	3
Prepayments for services	281	247
Other receivables	226	154
Total	3,348	3,020

Receivables are stated net of a provision for impairment losses of €643 million.

(€ million)	Dec. 31, 2015	Additions	Deductions	Currency translation differences	Other changes	Dec. 31, 2016
Trade receivables	441	194	(19)	19	1	636
Other receivables	5	3	(2)	-	-	6
Financing receivables for non-operating purposes	-	1	-	-	-	1
Total	446	198	(21)	19	1	643

Trade receivables of €2,613 million were down €194 million compared to 2015, mainly due to the write-down of overdue receivables of the Drilling Business Unit in South America.

At December 31, Saipem had non-recourse non-notification factoring agreements relating to trade receivables, including not past due receivables, amounting to €100 million (€95 million at December 31, 2015). Saipem SpA is responsible for managing the collection of the assigned receivables and for transferring the sums collected to the factors. Trade receivables included retention amounts guaranteeing contract work-in-progress of €331 million (€223 million at December 31, 2015), of which €131 million was due within one year and €200 million due after one year.

Trade receivables neither past due nor impaired amount to €1,820 million (€1,723 million at December 31, 2015), whereas receivables that are past due and are not impaired amount to €793 million (€1,084 million at December 31, 2015), €237 million of which are from 1 to 90 days past due (€549 million at December 31, 2015), €58 million of which are from 3 to 6 months past due (€159 million at December 31, 2015), €210 million of which are from 6 to 12 months past due (€145 million at December 31, 2015) and €288 million of which are past due by more than 12 months (€231 million at December 31, 2015). These receivables were primarily due from high credit quality counterparties. The receivables referring to projects under dispute total to €205 million.

Financing receivables for operating purposes of €3 million (€4 million at December 31, 2015) were mainly related to a receivable held by Saipem SpA from Serfactoring SpA.

Financing receivables for non-operating purposes amounting to €3 million (€30 million at December 31, 2015) are down significantly following the conclusion of the TSKJ issue.

Other receivables of €154 million were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Receivables from:		
- insurance companies	18	9
- employees	36	26
Guarantee deposits	13	10
Other receivables	159	109
Total	226	154

Other receivables and prepayments for services neither past due nor impaired amounted to €400 million (€488 million at December 31, 2015). Other receivables past due, but not impaired, amounted to €1 million (€19 million at December 31, 2015), due after 12 months. These receivables were primarily due from high credit quality counterparties.

Trade receivables and other receivables from related parties are detailed in Note 44 '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 €1,962 million (€2,099 million at December 31, 2015). Their breakdown by currency was as follows:

- US Dollar 69% (76% at December 31, 2015);
- Saudi Arabian Riyal 13% (7% at December 31, 2015);
- Canadian Dollar 5% (0% at December 31, 2015);
- Australian Dollar 4% (4% at December 31, 2015);
- other currencies 9% (13% at December 31, 2015).

For details on amounts relating to projects executed in Algeria, see Note 48 'Additional information: Algeria'.

4 Inventories

Inventories amounted to €2,242 million (€2,286 million at December 31, 2015) and were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Raw and auxiliary materials and consumables	497	394
Contract work-in-progress	1,789	1,848
Total	2,286	2,242

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 €143 million. Consistent with the rationalisation of the asset base due to the non-existent or poor possibility of the use envisaged in the strategic plan, the inventories were completely written down on December 31, 2016.

(€ million)	Dec. 31, 2015	Additions	Deductions	Other changes	Dec. 31, 2016
Inventories valuation allowance	61	100	(20)	2	143
Total	61	100	(20)	2	143

Contract work-in-progress relates to timing differences between actual project progress and the achievement of contractual invoicing milestones, and to the recognition of additional contract revenues deemed probable and reasonably estimated.

Notwithstanding the positive effect of the approval of the milestones by clients, the amount recorded in relation to contract work-in-progress has increased slightly, mainly due to projects with a penalising financial profile. Information on construction contracts accounted for in accordance with IAS 11 is provided in Note 43 'Segment information, geographical information and construction contracts'.

For details on amounts relating to projects executed in Algeria, see Note 48 'Additional information: Algeria'.

5 Current tax assets

Current tax assets amounted to €192 million (€253 million at December 31, 2015) and were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Italian tax authorities	53	52
Foreign tax authorities	200	140
Total	253	192

The decrease in current tax assets of €61 million was mainly due to the decrease in credits from foreign tax authorities because of impairment due to the reduction in the activities and profit margins in some countries.

6 Other current tax assets

Other current tax assets amounted to €241 million (€376 million at December 31, 2015) and were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Italian tax authorities:	67	16
- VAT credits	65	16
- other	2	-
Foreign tax authorities:	309	225
- indirect tax credits	293	209
- other	16	16
Total	376	241

The decrease in other current tax assets of €135 million was mainly due to the decrease in credits from foreign tax authorities because of the impairment of assets and the reduction in the activities and profit margins in some countries, as well as to the decrease in VAT credits from the Italian tax authorities held by Saipem SpA following a non-recourse factoring agreement relating to VAT receivables for a net amount of €62 million (€43 million in 2015).

7 Other current assets

Other current assets amounted to €144 million (€209 million at December 31, 2015) and were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Fair value of hedging derivatives	42	13
Fair value of non-hedging derivatives	26	17
Other assets	141	114
Total	209	144

At December 31, 2016, derivative financial instruments had a positive fair value of €30 million (€68 million at December 31, 2015). The fair value of derivative financial instruments was determined using valuation models commonly used in the financial sector and based on year-end market data (exchange and interest rates).

The fair value of forward contracts (forward outright and currency swaps) was determined by comparing the net present value at contractual conditions of forward contracts outstanding at December 31, 2016, with their present value recalculated at period-end market conditions. The model used is the Net Present Value model, which is based on the forward contract exchange rate, the period-end exchange rate and the respective forward interest rate curves.

The table below shows the assets considered in the calculation of the fair value of derivative contracts, including the long-term portion, broken down by type:

(€ million)	Assets Dec. 31, 2015			Assets Dec. 31, 2016		
	Fair value	Commitments		Fair value	Commitments	
		purchase	sale		purchase	sale
1) Derivative contracts qualified for hedge accounting:						
- forward currency contracts (Spot component)						
. purchase	20			10		
. sale	34			1		
Total	54			11		
- forward currency contracts (Forward component)						
. purchase	3			3		
. sale	(5)			-		
Total	(2)	1,154	1,703	3	292	69
- forward commodity contracts (Forward component)						
. purchase	-			1		
Total	-	-	-	1	6	-
Total derivative contracts qualified for hedge accounting	52	1,154	1,703	15	298	69
2) Derivative contracts not qualified for hedge accounting:						
- forward currency contracts (Spot component)						
. purchase	9			11		
. sale	17			4		
Total	26			15		
- forward currency contracts (Forward component)						
. purchase	1			2		
. sale	(1)			-		
Total	-	777	865	2	389	348
- forward commodity contracts (Forward component)						
. sale	-			-		
Total			-			-
Total derivative contracts not qualified for hedge accounting	26	777	865	17	389	348
Total	78	1,931	2,568	32	687	417

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, 2016 are expected to occur up until 2017.

During 2016, 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, 2016 totalled €15 million (€52 million at December 31, 2015). The spot component of these derivatives of €11 million (€54 million at December 31, 2015) was deferred in a hedging reserve in equity (€10 million; €50 million at December 31, 2015) and recorded as finance income and expense (€1 million; €4 million at December 31, 2015), while the forward component, which was not designated as a hedging instrument, was recognised as finance income and expense (€3 million; -€2 million at December 31, 2015). The forward component of commodities contracts of €1 million was deferred in a hedging reserve in equity.

The negative fair value of derivative qualified for hedge accounting at December 31, 2016, analysed in Note 18 'Other current liabilities' including the long-term portion analysed in Note 23 'Other non-current liabilities' was €125 million (€120 million at December 31, 2015). The spot component of these derivatives of €103 million was deferred in a hedging reserve in equity (€93 million; €105 million at December 31, 2015) and recorded as finance income and expense (€10 million; €6 million at December 31, 2015). The forward component was recognised as finance income and expense (€22 million; €9 million at December 31, 2015). The change in the hedging reserve between December 31, 2015 and December 31, 2016 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, 2015	Gains for the period	Losses for the period	Adjustment for gains EBITDA	Adjustment for losses EBITDA	Gains due to cancellation of underlying	Losses due to cancellation of underlying	Dec. 31, 2016
Exchange rate hedge reserve								
Saipem SpA	(106)	58	(80)	(61)	109	(5)	5	(80)
Saipem SA	80	44	(47)	(126)	59	(6)	5	9
Sofresid SA	(267)	26	(39)	(19)	158	-	-	(141)
Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	(55)	37	(35)	(42)	71	(13)	7	(30)
Saipem Ltd	1	3	(7)	(3)	7	-	1	2
Saipem Misr for Petroleum Services (S.A.E.)	-	8	(6)	(7)	5	-	-	-
Saipem Ingenieria y Construcciones SLU	(9)	3	-	(1)	7	-	-	-
Snamprogetti Saudi Arabia Co Ltd Llc	-	1	(1)	(1)	-	-	-	(1)
Saudi Arabian Saipem Ltd	(5)	-	-	-	3	-	-	(2)
Snamprogetti Engineering & Contracting Co Ltd	(8)	-	(1)	-	9	-	-	-
Total exchange rate hedge reserve	(369)	180	(216)	(260)	428	(24)	18	(243)
Commodity hedge reserve								
Saipem Ltd	-	1	-	-	-	-	-	1
Total commodity hedge reserve	-	1	-	-	-	-	-	1
Interest rate hedge reserve								
Saipem SpA	(2)	1	-	-	-	-	-	(1)
Saipem Finance International BV	-	-	(2)	-	-	-	-	(2)
Total interest rate hedge reserve	(2)	1	(2)	-	-	-	-	(3)
Total hedge reserve	(371)	182	(218)	(260)	428	(24)	18	(245)

During 2016, operating revenues and expenses were adjusted by a net negative amount of €168 million to reflect the effects of hedging.

Other assets at December 31, 2016 amounted to €114 million, representing a decrease of €27 million compared with December 31, 2015, and consisted mainly of prepayments.

Other assets from related parties are shown in Note 44 'Transactions with related parties'.

NON-CURRENT ASSETS

8 Property, plant and equipment

Property, plant and equipment amounted to €5,192 million (€7,287 million at December 31, 2015) and consisted of the following:

(€ million)	Opening net value	Capital expenditure	Depreciation, amortisation and impairment	Disposals	Change in the scope of consolidation	Business division transactions	Currency translation differences	Other changes	Final net value	Final gross value	Provision for amortisation and impairment
Dec. 31, 2015											
Land	86	-	-	-	-	-	(16)	-	70	70	-
Buildings	720	17	(219)	(1)	-	-	11	39	567	1,097	530
Plant and equipment	6,294	290	(648)	(10)	-	-	94	115	6,135	11,546	5,411
Industrial and commercial equipment	239	16	(59)	(1)	-	-	3	(3)	195	822	627
Other assets	33	6	(13)	-	-	-	-	-	26	141	115
Assets under construction and advances	229	221	(10)	-	-	-	7	(153)	294	303	9
Total	7,601	550	(949)	(12)	-	-	99	(2)	7,287	13,979	6,692
Dec. 31, 2016											
Land	70	-	-	-	-	-	14	-	84	84	-
Buildings	567	8	(341)	(1)	-	-	(5)	11	239	1,171	932
Plant and equipment	6,135	151	(1,962)	(6)	-	-	17	248	4,583	11,702	7,119
Industrial and commercial equipment	195	6	(77)	(10)	-	-	4	4	122	613	491
Other assets	26	2	(13)	-	-	-	1	-	16	136	120
Assets under construction and advances	294	118	-	(1)	-	-	1	(264)	148	154	6
Total	7,287	285	(2,393)	(18)	-	-	32	(1)	5,192	13,860	8,668

Capital expenditure in 2016 amounted to €285 million (€550 million in 2015) and mainly related to:

- €112 million in the Offshore Engineering & Construction sector, relating to the maintenance and upgrading of the existing asset base;
- €4 million in the Onshore Engineering & Construction sector essentially for the purchase of equipment;
- €93 million in the Offshore Drilling sector for class reinstatement works on the semi-submersible platform Scarabeo 8 and Scarabeo 9, as well as maintenance and upgrading of the existing asset base;
- €76 million in the Onshore Drilling for the upgrading of two rigs for operations in Kuwait in the framework of two contracts in the backlog, as well as the upgrading 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 resulting from the conversion of financial statements of companies operating in currencies other than euro, amounted to positive €32 million.

Fully depreciated property, plant and equipment that is still in use mainly consisted of project-specific equipment which has been fully depreciated over the life of the project.

During the year, no government grants were recorded as a decrease of the value of property, plant and equipment.

At December 31, 2016, 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, 2016 is indicated in 'Summary of significant accounting policies - Financial risk management'.

Property, plant and equipment includes assets carried under finance leases amounting to the equivalent of €30 million, relating to finance leases for the utilisation of two onshore drilling rigs in Saudi Arabia for a period of 36 months starting from 2015.

Consistent with the rationalisation of the asset base provided for in the strategic plan due to the non-existent or poor possibility of use during the years of the plan, assets for a total of €646 million were completely or partially written down in 2016. For the Offshore Drilling business unit two jack-ups and a semi-submersible platform; for the Onshore Drilling business unit some drilling rigs; for the Offshore E&C business unit a vessel, an FPSO and two fabrication yards; for the Onshore E&C business unit two fabrication yards.

Impairment

In reviewing its impairment indicators, Saipem considers, among other factors, the relationship between its market capitalisation and net assets. At December 31, 2016, the Group's market capitalisation was lower than its net assets, before impairment, indicating a potential impairment of goodwill and/or of other assets. For this reason, and taking account the fact that the market continues to be characterised by low oil prices and great volatility, an impairment test was run for every single cash generating unit. The cash generating units identified were the two leased FPSO units, the Offshore E&C sector, with the exclusion of the leased FPSO, the Onshore E&C sector, the Onshore Drilling sector, and the individual offshore drilling rigs (11 separate rigs).

The 2017-2020 Strategic Plan, approved by the Board of Directors in the month of October 2016, constitutes the basis for the assessment of the recoverable amounts of each cash generating unit. The Plan is consistent with the deterioration of the market scenario compared to the 2016-2019 Plan. This is reflected in a lower use of the base asset, in lower operating rates in the drilling sector and in a drop in the volume of activities. Despite the efficiency efforts both on the cost side and on the investments side, the economic results and the cash flow generated by the CGUs in the new Plan are lower compared to the expectations of the previous Plan.

The CGUs were tested for impairment by comparing the respective carrying amount, subsequent to the write-downs of assets from the Strategic Plan, with the relative recoverable value, represented by the higher between the value in use and the fair value, net of disposal costs. In view of the nature of Saipem's business activities, the calculation of the recoverable amount was determined by discounting the future cash flows expected to result from the use of each CGU.

Cash flow projections are determined on the basis of the best information available at the moment of the estimate taking into account future expectations of management with regard to the relevant markets. The projections of the 2017-2020 Strategic Plan have been used for the impairment test as a basis for estimating the cash flows for the first four years. For the years following the fourth year, the cash flows have been calculated on the basis of a terminal value, determined: (a) for the cash generating units Onshore E&C, Onshore Drilling and Offshore E&C with the exclusion of the leased FPSOs, using the perpetuity model, applying a real growth rate of zero to the normalised free cash flow of the final projection year (to take into account, for example, new investments included in the plan entering into operation and the cyclical nature of the sector); and (b) for the Leased FPSO cash generating units and for the offshore drilling rigs, the residual economic and technical life of the individual assets, considering beyond the plan horizon: (i) daily rates for the individual rigs expected by the management; (ii) normalised figures for days of utilisation (to take into account rig downtime for maintenance, etc.); (iii) operating costs based on data for the last year of the plan, adjusted for inflation; and (iv) normalised figures for investments for cyclical maintenance and replacements.

Value in use was calculated by discounting post-tax cash flows at a rate of 7.2% (up 1% on 2015 and on the first half-year of 2016). The discount rate used (WACC) reflects market assessments of the time value of money and the risks specific to Saipem's business that are not reflected in the estimate of future cash flows and has been estimated taking into account: (i) of a debt cost that is consistent with the cost estimated for the four years of the plan; (ii) of Saipem's average leverage during the period of the plan; (iii) of the beta risk coefficient of the Saipem stock. Post-tax cash flows and discounting rates were used as they result in values similar to those resulting from a pre-tax valuation.

Due to the effect of the aforementioned impairment test, it was deemed necessary to reduce the carrying value of five offshore rigs and one FPSO vessel, for a total value of €1,078 million.

The key assumptions adopted in assessing the recoverable amounts of the 13 cash generating units representing the Group's offshore vessels related mainly to the operating result of the CGUs (based on a combination of various factors, including charter rates) and the discount rate applied to the cash flows. The effects that any change in the parameters used in the estimate would produce on the recoverable amount of the CGUs are as follows:

- an increase in the discount rate of 1% would produce a further reduction in net capital employed of €159 million;
- a decrease in the discount rate of 1% would produce a lower impairment of €183 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 €378 million;
- decreases in long-term day rates of 10% compared with the rates assumed in the plan projections would produce a further reduction in net capital employed of €370 million.

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

- decrease by 13% in the operating result, over the entire plan period and in perpetuity;
- use of a discount rate of 7.9%;
- use of a real growth rate of 1.2%.

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

9 Intangible assets

Intangible assets of €755 million (€758 million December 31, 2015) consisted of the following:

(€ million)	Opening net value	Capital expenditure	Depreciation, amortisation and impairment	Currency translation differences and other changes	Final net value	Final gross value	Provision for amortisation and impairment
Dec. 31, 2015							
Intangible assets with finite useful lives							
Development costs	-	-	-	-	-	7	7
Industrial patents and intellectual property rights	22	7	(11)	1	19	170	151
Concessions, licenses and trademarks	4	1	-	(1)	4	15	11
Assets under construction and advances	4	3	-	(1)	6	6	-
Other intangible assets	2	-	-	-	2	3	1
Intangible assets with indefinite useful lives							
Goodwill	728	-	-	(1)	727	727	-
Total	760	11	(11)	(2)	758	928	170
Dec. 31, 2016							
Intangible assets with finite useful lives							
Development costs	-	-	-	-	-	7	7
Industrial patents and intellectual property rights	19	7	(11)	2	17	179	162
Concessions, licenses and trademarks	4	-	(4)	1	1	19	18
Assets under construction and advances	6	4	-	(3)	7	7	-
Other intangible assets	2	-	-	-	2	3	1
Intangible assets with indefinite useful lives							
Goodwill	727	-	-	1	728	728	-
Total	758	11	(15)	1	755	943	188

Concessions, licences and trademarks, and industrial patents and intellectual property rights of €1 million and €17 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
Franchise, licences, trademarks and similar rights	20.00 - 20.00
Other intangible assets	20.00 - 33.00

Goodwill of €728 million related to the difference between the purchase price, including transaction costs, and the net assets of Saipem SA (€689 million), Sofresid SA (€21 million), and the Moss Maritime Group (€13 million) on the date that control was acquired.

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

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Offshore E&C	415	415
Onshore E&C	312	313
Total	727	728

The changes in the Onshore E&C cash generating unit concerned a change in goodwill of the Moss Maritime Group due to effects of changes in foreign exchange rates.

The recoverable amount of the two cash generating units was determined based on value in use, calculated by discounting the future cash flows expected to result from the use of each CGU.

The expected future cash flows for the explicit forecast period of four years were derived from Saipem's 2017-2020 Strategic Plan, which was approved by the Board of Directors in October 2016.

Value in use was calculated applying a discount rate of 7.2% to future post-tax cash flows. The terminal value (i.e. for subsequent years beyond the plan horizon) was estimated using a perpetual growth rate of 2% applied to an average normalised terminal cash flow. Assumptions were based on past experience and took into account current interest rates, business specific risks and expected long-term growth for the sectors.

Post-tax cash flows and discounting rates are used as they result in values similar to those resulting from a calculation using pre-tax cash flows and discount rates.

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

(€ million)	Offshore	Onshore	Total
Goodwill	415	313	728
Amount by which recoverable amount exceeds carrying amount	830	226	1,056

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

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

- decrease by 27% in the operating result;
- use of a discount rate of 9%;
- negative real growth rate.

Further, the excess of the recoverable amount over the value of the net capital employed in the Offshore Drilling CGU is still positive even after the working capital flows have been zeroed. The excess of the recoverable amount of the Onshore cash generating unit over its carrying amount, including the allocated portion of goodwill, would be reduced to zero under the following circumstances:

- decrease by 30% in the operating result;
- use of a discount rate of 9.3%;
- negative real growth rate.

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

10 Investments

Investments accounted for using the equity method

Investments accounted for using the equity method amounted to €148 million (€135 million at December 31, 2015) and 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, 2015												
Investments in subsidiaries, joint ventures and associates	120	1	-	18	(9)	(3)	-	7	-	1	135	-
Total	120	1	-	18	(9)	(3)	-	7	-	1	135	-
Dec. 31, 2016												
Investments in subsidiaries, joint ventures and associates	135	-	(3)	26	(7)	(4)	-	2	(1)	-	148	-
Total	135	-	(3)	26	(7)	(4)	-	2	(1)	-	148	-

Investments accounted for using the equity method are analysed in the section 'Scope of consolidation at December 31, 2016'. The share of profit of investments accounted for using the equity method of €26 million included profits for the period of €8 million recorded by the joint ventures and €18 million for the period recorded by associates.

The share of losses of investments accounted for using the equity method of €7 million included losses for the period of €4 million recorded by the joint ventures and €3 million for the period recorded by associates.

Deductions following the distribution of dividends of €4 million related to TMBYS SAS (€2 million), Tecnoprojecto Internacional Projectos e Realizações Industriais SA (€1 million) and other companies (€1 million).

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, 2015	Net value at Dec. 31, 2016
Rosetti Marino SpA	20.00	31	31
Petromar Lda	70.00	45	52
Other		59	65
Total investments accounted for using the equity method		135	148

The total carrying value of investments accounted for using the equity method does not include the provision for losses of €2 million (€1 million at December 31, 2015) recorded under the provisions for contingencies.

Other investments

The other investments amounted to €1 million and refer to the evaluation at fair value (with effects recognised in shareholders' equity) of the companies Nagarjuna Oil Refinery Ltd and Nagarjuna Fertilizers and Chemicals Ltd.

Other information about investments

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

(€ million)	Dec. 31, 2015			Dec. 31, 2016		
	Subsidiaries	Joint ventures	Associates	Subsidiaries	Joint ventures	Associates
Total assets	1	348	372	1	391	349
of which cash and cash equivalents	-	42	46	-	50	54
Total liabilities	-	276	311	1	320	274
Net revenues	1	397	258	1	386	213
Operating profit	-	10	4	-	18	21
Net profit (loss) for the year	-	15	1	-	4	14

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

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Current assets	546	696
- of which cash and cash equivalents	86	102
Non-current assets	104	104
Total assets	650	800
Current liabilities	479	647
- of which current financial liabilities	16	1
Non-current liabilities	40	33
Total liabilities	519	680
Shareholders' equity	131	120
Carrying amount of investment	73	71
Revenues and other operating income (expense)	783	961
Operating expenses	(736)	(904)
Depreciation, amortisation and impairment	(20)	(18)
Operating result	27	39
Finance income (expense)	25	(28)
Income (expense) from investments	(1)	-
Pre-tax profit	51	11
Income taxes	(10)	(7)
Net profit (loss) for the year	41	4
Other items of comprehensive income	7	(4)
Total comprehensive income (loss) for the year	48	-
Net profit (loss) attributable to Group	15	4
Dividends approved by the joint ventures	-	2

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

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Current assets	739	722
- of which cash and cash equivalents	127	152
Non-current assets	278	248
Total assets	1,017	970
Current liabilities	681	586
- of which current financial liabilities	39	49
Non-current liabilities	104	113
- of which non-current financial liabilities	12	45
Total liabilities	785	699
Shareholders' equity	232	271
Carrying amount of investment	61	75
Revenues and other operating income (expense)	713	585
Operating expenses	(674)	(502)
Depreciation, amortisation and impairment	(27)	(25)
Operating result	12	58
Finance income (expense)	(5)	(19)
Income (expense) from investments	-	(1)
Pre-tax profit	7	38
Income taxes	(3)	-
Net profit (loss) for the year	4	38
Other items of comprehensive income	7	3
Total comprehensive income (loss) for the year	11	41
Net profit (loss) attributable to Group	1	14
Dividends approved by the associates	3	2

11 Other financial assets

At December 31, 2016, there were no other long-term financial assets (€1 million at December 31, 2015).

12 Deferred tax assets

Deferred tax assets of €302 million (€460 million at December 31, 2015) are shown net of offsettable deferred tax liabilities.

(€ million)	Dec. 31, 2015	Additions	Deductions	Currency translation differences	Other changes	Dec. 31, 2016
Deferred tax assets	460	69	(306)	(15)	94	302
Total	460	69	(306)	(15)	94	302

The item 'Other changes', which amounted to positive €94 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €107 million); (ii) the tax effects (negative €7 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; (iii) income tax (negative €1 million) relating to remeasurements of defined benefit plans reported in equity; (iv) other changes (negative €5 million).

Net deferred tax assets consisted of the following:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Deferred tax liabilities	(291)	(233)
Deferred tax assets available for offset	281	174
Deferred tax liabilities	(10)	(59)
Deferred tax assets	460	302
Net deferred tax assets (liabilities)	450	243

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

(€ million)	Dec. 31, 2015	Additions	Deductions	Exchange rate differences	Other changes	Dec. 31, 2016
Deferred tax liabilities:						
- accelerated tax depreciation	(125)	(5)	26	4	1	(99)
- hedging derivatives	(24)	(5)	2	-	(32)	(59)
- employee benefits	(3)	(1)	-	-	2	(2)
- non distributed reserves held by investments	(67)	-	32	-	(1)	(36)
- project progress status	(11)	(12)	10	2	-	(11)
- other	(61)	(35)	70	-	-	(26)
	(291)	(58)	140	6	(30)	(233)
less:						
Deferred tax liabilities available for offset	281	-	-	-	(107)	174
Deferred tax liabilities	(10)	(58)	140	6	(137)	(59)
Deferred tax assets:						
- accruals for impairment losses and provisions for contingencies	169	69	(146)	(9)	(8)	75
- non-deductible amortisation	30	23	(7)	(1)	1	46
- hedging derivatives	40	19	(25)	-	18	52
- employee benefits	16	18	(2)	-	-	32
- carry-forward tax losses	742	146	(59)	30	(25)	834
- project progress status	74	52	(68)	(8)	-	50
- other	44	32	(15)	(1)	1	61
	1,115	359	(322)	11	(13)	1,150
less:						
- unrecognised deferred tax assets	(374)	(290)	16	(26)	-	(674)
	741	69	(306)	(15)	(13)	476
less:						
Deferred tax assets available for offset	(281)	-	-	-	107	(174)
Deferred tax assets	460	69	(306)	(15)	94	302
Net deferred tax assets (liabilities)	450	11	(166)	(9)	(43)	243

Unrecognised deferred tax assets of €674 million (€374 million at December 31, 2015) mainly related to tax losses that it will probably not be possible to utilise against future income.

Tax losses

Tax losses amounted to €3,021 million (€2,733 million at December 31, 2015) of which a considerable part can be carried forward without limit.

Tax recovery corresponds to a tax rate of 24% for Italian companies and to an average tax rate of 28% for foreign companies.

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

(€ million)	Italy	Outside Italy
2017	-	97
2018	-	37
2019	-	33
2020	-	18
2021	-	53
After 2021	-	835
Without limit	289	1.659
Total	289	2.732

Taxes are shown in Note 40 'Income taxes'.

13 Other non-current assets

Other non-current assets of €102 million (€114 million at December 31, 2015) were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Fair value of hedging derivatives	10	2
Other receivables	18	16
Other non-current assets	86	84
Total	114	102

The fair value of hedging derivatives is related to foreign exchange risk hedges maturing in 2018.

Other non-current assets mainly related to prepayments.

Other non-current assets from related parties are shown in Note 44 'Transactions with related parties'.

CURRENT LIABILITIES

14 Short-term financial liabilities

Short-term debt of €152 million (€3,016 million at December 31, 2015) consisted of the following:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Banks	176	144
Other financial institutions	2,840	8
Total	3,016	152

Short-term debt decreased by €2,864 million due to the refinancing of the residual debt, following the share capital increase, through medium- to long-term banking loans rather than loans from Eni. The current portion of long-term debt, amounting to €54 million (€656 million at December 31, 2015), is detailed in Note 19 '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, 2015			Dec. 31, 2016		
Issuing institution	Currency	Amount	Interest rate %		Amount	Interest rate %	
			from	to		from	to
Eni SpA	Euro	478	2.250	2.250	-	-	-
Serfactoring	US Dollar	6	-	-	-	-	-
Eni Finance International SA	Euro	622	1.160	2.510	-	-	-
Eni Finance International SA	US Dollar	933	1.930	2.680	-	-	-
Eni Finance International SA	Australian Dollar	247	3.650	3.650	-	-	-
Eni Finance International SA	Canadian Dollar	470	2.380	2.380	-	-	-
Eni Finance USA	US Dollar	25	2.680	2.680	-	-	-
Third parties	Euro	1	-	-	51	0.00	0.50
Third parties	US Dollar	1	2.350	2.350	1	0.00	0.00
Third parties	Other	233	variable		100	variable	
Total		3,016			152		

At December 31, 2016, Saipem had unused lines of credit amounting to €1,650 million (€1,739 million at December 31, 2015). Commission fees on unused lines of credit were not significant.

At December 31, 2016, there was no unfulfillment of terms and conditions or violation of agreements in relation to financing contracts.

Short-term debt to related parties are shown in Note 44 'Transactions with related parties'.

15 Trade and other payables

Trade and other payables of €4,860 million (€5,186 million at December 31, 2015) consisted of the following:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Trade payables	2,638	2,770
Deferred income and advances	2,177	1,787
Other payables	371	303
Total	5,186	4,860

Trade payables amounted to €2,770 million, representing an increase of €132 million compared with December 31, 2015. Deferred income and advances of €1,787 million (€2,177 million at December 31, 2015), consisted mainly of adjustments to revenues from long-term contracts of €1,051 million (€1,515 million at December 31, 2015) made on the basis of amounts contractually earned in accordance with the accruals concept and advances on contract work in progress received by Saipem SpA and a number of foreign subsidiaries of €736 million (€662 million at December 31, 2015).

Trade and other payables to related parties are shown in Note 44 'Transactions with related parties'.

Other payables of €303 million were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Payables to:		
- employees	157	150
- national insurance/social security contributions	69	63
- insurance companies	3	4
- consultants and professionals	4	4
- Board Directors and Statutory Auditors	1	1
Other payables	137	81
Total	371	303

The fair value of trade and other payables did not differ significantly from their carrying amount due to the short period of time elapsed between their date of origination and their due date.

For details on amounts relating to projects executed in Algeria, see Note 48 'Additional information: Algeria'.

16 Income tax payables

Income tax payables amounted to €96 million (€130 million at December 31, 2015) and were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Italian tax authorities	12	-
Foreign tax authorities	118	96
Total	130	96

17 Other current tax payables

Other current tax payables amounted to €265 million (€268 million at December 31, 2015) and were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Italian tax authorities:	14	13
- other	14	13
Foreign tax authorities:	254	252
- indirect tax	194	185
- other	60	67
Total	268	265

18 Other current liabilities

Other current liabilities amounted to €244 million (€202 million at December 31, 2015) and were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Fair value of hedging derivatives	113	119
Fair value of non-hedging derivatives	45	78
Other current liabilities	44	47
Total	202	244

At December 31, 2016, derivative financial instruments had a negative fair value of €197 million (€158 million at December 31, 2015). The increase of other liabilities of €3 million is mainly due to revenues for contractual penalties applied to clients but related to subsequent years.

The following table shows the positive and negative fair values of derivative contracts at the closing date of the period.

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Positive fair value of derivative contracts	78	32
Negative fair value of derivative contracts	(165)	(203)
Total	(87)	(171)

The fair value of derivative instruments was determined using valuation models commonly used in the financial sector and based on year-end market data (exchange and interest rates).

The fair value of forward contracts (forward outright and currency swaps) was determined by comparing the net present value at contractual conditions of forward contracts outstanding at December 31, 2016, 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 €3 million (€2 million at December 31, 2015) relating to the fair value of an interest rate swap has been recorded under Note 19 'Long-term financial liabilities and short-term proportion of long-term liabilities'.

The fair value of interest rate swaps was determined by comparing the net present value at contractual conditions of swaps outstanding at December 31, 2016, 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.

The negative fair value of derivative contracts by type can be analysed as follows:

(€ million)	Liabilities Dec. 31, 2015			Liabilities Dec. 31, 2016		
	Fair value	Commitments		Fair value	Commitments	
		purchase	sale		purchase	sale
1) Derivative contracts qualified for hedge accounting:						
- interest rate contracts (Spot component)						
. purchase	2			3		
Total	2	250		3	1,450	
- forward currency contracts (Spot component)						
. purchase	34			4		
. sale	75			96		
Total	109			100		
- forward currency contracts (Forward component)						
. purchase	(5)			3		
. sale	14			19		
Total	9	1,235	3,452	22	670	1,963
- forward commodity contracts (Forward component)						
. purchase	-			-		
Total	-	-	-	-	-	-
Total derivative contracts qualified for hedge accounting	120	1,485	3,452	125	2,120	1,963
2) Derivative contracts not qualified for hedge accounting:						
- forward currency contracts (Spot component)						
. purchase	17			7		
. sale	26			60		
Total	43			67		
- forward currency contracts (Forward component)						
. purchase	(1)			-		
. sale	3			11		
Total	2	1,300	1,211	11	334	1,929
- forward commodity contracts (Forward component)						
. purchase	-			-		
. sale	-			-		
Total	-	-	-	-	-	-
Total derivative contracts not qualified for hedge accounting	45	1,300	1,211	78	-	-
Total	165	2,785	4,663	203	2,454	3,892

For a complete analysis of the fair value of the cash flow hedges, see also Note 7 'Other current assets', Note 13 'Other non-current assets' and Note 23 'Other non-current liabilities'.

Other liabilities amounted to €47 million (€44 million at December 31, 2015).

Other liabilities to related parties are shown in Note 44 'Transactions with related parties'.

NON-CURRENT LIABILITIES

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

Long-term debt, including the current portion of long-term debt, amounted to €3,248 million (€3,497 million at December 31, 2015) and was as follows:

(€ million)	Dec. 31, 2015			Dec. 31, 2016		
	Short-term maturity	Long-term maturity	Total	Short-term maturity	Long-term maturity	Total
Banks	4	252	256	35	2,193	2,228
Ordinary bonds	-	-	-	9	993	1,002
Other financial institutions	652	2,589	3,241	10	8	18
Total	656	2,841	3,497	54	3,194	3,248

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

(€ million)

Type	Maturity range						Total
		2018	2019	2020	2021	After	
Banks	2018-2025	563	914	567	48	101	2,193
Ordinary bonds	2021-2023	-	-	-	497	496	993
Other financial institutions	2018	8	-	-	-	-	8
Total		571	914	567	545	597	3,194

The long-term portion of long-term debt amounted to €3,194 million, up €353 million against December 31, 2015 (€2,841 million). The following table breaks down long-term debt, inclusive of the current portion, by issuing entity and currency and also shows maturities and average interest rates:

(€ million)

Issuing institution	Currency	Maturity	Dec. 31, 2015			Dec. 31, 2016		
			Amount	Interest rate %		Amount	Interest rate %	
				from	to		from	to
Eni SpA	Euro	2017	2,013	2.500	4.950	-	-	-
Eni Finance International SA	Euro	2017-2020	859	1.160	2.510	-	-	-
Eni Finance International SA	US Dollar	2017	342	1.330	2.930	-	-	-
Third parties	Euro	2017-2025	278	2.085	2.085	3,246	1.31	4.10
Third parties	Brazilian Real	2017	5	12.500	12.500	2	13.50	13.50
Total			3,497			3,248		

There was no debt secured by mortgages or liens on fixed assets of consolidated companies or by pledges on securities.

The fair value of long-term debt, including the current portion of long-term debt, amounted to €3,318 million (€3,539 million at December 31, 2015) and was calculated by discounting the expected future cash flows in the main currencies of the loan at the following rates:

(%)	2015	2016
Euro	0.77-2.86	0.00-3.22
US Dollar	1.42-1.42	-

The difference between the fair value of long-term debt and its nominal value was mainly due to the debt of €1,600 million expiring in 2020.

Long-term debt to related parties is shown in Note 44 'Transactions with related parties'.

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

(€ million)	Dec. 31, 2015			Dec. 31, 2016		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	1,066	-	1,066	1,892	-	1,892
B. Available-for-sale securities	26	-	26	55	-	55
C. Liquidity (A+B)	1,092	-	1,092	1,947	-	1,947
D. Financing receivables	30	-	30	3	-	3
E. Short-term bank debt	176	-	176	144	-	144
F. Long-term bank debt	4	252	256	35	2,193	2,228
G. Short-term related party debt	2,781	-	2,781	-	-	-
H. Ordinary bond	-	-	-	9	993	1,002
I. Long-term related party debt	643	2,571	3,214	-	-	-
L. Other short-term debt	59	-	59	8	-	8
M. Other long-term debt	9	18	27	10	8	18
N. Total borrowings (E+F+G+H+I+L+M)	3,672	2,841	6,513	206	3,194	3,400
O. Net financial position pursuant to Consob Communication No. DEM/6064293/2006 (N-C-D)	2,550	2,841	5,391	(1,744)	3,194	1,450
P. Non-current financing receivables	-	1	1	-	-	-
Q. Net borrowings (O-P)	2,550	2,840	5,390	(1,744)	3,194	1,450

Net borrowings include a liability relating to the interest rate swap but do not include the fair value of derivatives indicated in Note 7 'Other current assets', Note 13 'Other non-current assets', Note 18 'Other current liabilities' and Note 23 'Other non-current liabilities'.

Cash and cash equivalents included €91 million deposited in accounts that are frozen or are time deposits, as indicated in Note 1 'Cash and cash equivalents'.

The change compared to the balance at December 31, 2015 (€3,940 million) is due substantially to the share capital increase and to the operating cash flow generated during the financial year.

20 Provisions for contingencies

Provisions for contingencies of €268 million (€238 million at December 31, 2015) consisted of the following:

(€ million)	Opening balance	Additions	Deductions	Other changes	Closing balance
Dec. 31, 2015					
Provisions for taxes	48	17	(9)	-	56
Provisions for contractual penalties and disputes	28	12	(23)	(1)	16
Provisions for losses of investments	8	-	(7)	-	1
Provision for contractual expenses and losses on long-term contracts	102	74	(53)	3	126
Other	32	20	(11)	(2)	39
Total	218	123	(103)	-	238
Dec. 31, 2016					
Provisions for taxes	56	10	(23)	(3)	40
Provisions for contractual penalties and disputes	16	78	(8)	6	92
Provisions for losses of investments	1	1	-	-	2
Provision for contractual expenses and losses on long-term contracts	126	17	(68)	(17)	58
Other	39	46	(12)	3	76
Total	238	152	(111)	(11)	268

The **provisions for taxes** amounted to €40 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 €92 million and consisted of provisions set aside by Saipem SpA and a number of foreign subsidiaries in relation to ongoing disputes.

The **provisions for losses of investments** amounted to €2 million and related to provisions for losses of investments that exceed their carrying amount.

The **provision for contractual expenses and losses on long-term contracts** stood at €58 million and related to an estimate of losses on long-term contracts in the Offshore and Onshore Engineering & Construction sectors.

Other provisions amounted to €76 million.

For details on amounts relating to projects executed in Algeria, see Note 48 'Additional information: Algeria'.

21 Provisions for employee benefits

Provisions for employee benefits at December 31, 2016 amounted to €206 million (€211 million at December 31, 2015) and were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
TFR	52	50
Foreign defined benefit plans	95	82
FISDE and other health plans	23	20
Other provisions for long-term employee benefits	41	54
Total	211	206

Provisions for employee benefits of the Saipem Group relate to employee termination indemnities, foreign defined benefit plans, the supplementary medical reserve for Eni managers (FISDE), and other long-term benefits.

Provisions for indemnities upon termination of employment primarily related to the provisions accrued by Italian companies for employee termination indemnities ('TFR'), determined using actuarial techniques and regulated by Article 2120 of the Italian Civil Code. The indemnity is paid upon retirement as a lump sum payment and is determined by the total of the accruals during the employees' service period based on payroll costs as revalued until retirement.

As a result of the provisions contained in the Finance Act for 2007 and related legislation – which came into effect on January 1, 2007 – for post-retirement indemnities under the Italian TFR are paid into pension funds or the treasury fund held by the Italian administration for post-retirement benefits (Inps). For companies with less than 50 employees it was possible to continue the scheme as in previous years.

The choice applied retrospectively from January 1, 2007. The allocation of future TFR provisions to private pension funds or to the Inps fund meant that these amounts would be classified as costs to provide benefits under a defined contribution plan. Past provisions accrued for post-retirement indemnities under the Italian TFR regime continue to represent costs to provide benefits under a defined benefit plan and must be assessed based on actuarial assumptions.

This change in regime, which occurred in 2007, prompted the need to reassess the value of the provision for employee termination indemnities due to the effect of the transformation of the plan from a defined benefit system to a defined contribution system. This involved the recalculation of the liabilities, excluding future salaries and relevant increase assumptions, and considering the possible updating of financial assumptions in order to take into account the moment of transfer of the provision for employee termination indemnities ('TFR') to pension funds.

Foreign defined benefit plans related to:

- defined benefit plans of foreign companies located, primarily, in the United Kingdom and Norway;
- pension provisions and similar obligations for personnel employed abroad, to whom local legislation applies.

Benefits consist of a return on capital determined on the basis of the length of service and the compensation paid in the last year of service or an average annual compensation paid in a determined period preceding retirement.

Liabilities and costs related to supplementary medical reserve for Eni managers (FISDE) are calculated on the basis of the contributions paid by the company for retired managers.

Other provisions for long-term employee benefits related mainly to deferred monetary incentive plans, long-term incentive plans, jubilee awards, voluntary redundancy incentive plans (Article 4, Law No. 92/2012) and other long-term plans.

The deferred monetary incentive scheme comprises estimated variable remuneration related to company performance to be paid out to senior managers who achieve their individual targets. The long-term incentive plans provide for a variable pay-out after a three-year vesting period based on performance targets. Jubilee awards are benefits due following the attainment of a minimum period of service to the company. In Italy, they consist of remuneration in kind. The voluntary redundancy incentive plan provision, allocated following an implementing agreement of the measures provided for by Article 4 of Law No. 92/2012, signed on May 23, 2016 between the Company Saipem SpA and the representatives of the main Trade Unions Organisations with a view to cutting down personnel in a non-traumatic manner, contains an estimate of the costs, determined using actuarial techniques, connected with offers for the consensual early termination of employment contracts.

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

(€ million)	Dec. 31, 2015					Dec. 31, 2016				
	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
Present value of benefit obligation at beginning of year	62	187	23	51	323	52	181	23	41	297
Current cost	-	17	1	14	32	-	17	1	6	24
Interest expense	1	7	-	1	9	1	5	-	1	7
Remeasurements:	(3)	(2)	-	(11)	(16)	3	3	(3)	5	8
- actuarial gains and losses arising from changes in demographic assumptions	-	3	-	(1)	2	-	(4)	-	-	(4)
- actuarial gains and losses arising from changes in financial assumptions	-	(7)	-	(9)	(16)	2	7	-	1	10
- experience adjustments	(3)	2	-	(1)	(2)	1	-	(3)	4	2
Past service cost and gains/losses arising from settlements	-	(7)	-	-	(7)	-	(27)	-	9	(18)
Contributions to plan:	-	-	-	-	-	-	-	-	-	-
- contributions to plan by employees	-	-	-	-	-	-	-	-	-	-
- contributions to plan by employer	-	-	-	-	-	-	-	-	-	-
Benefits paid	(5)	(21)	(1)	(13)	(40)	(6)	(20)	(1)	(8)	(35)
Business division transactions	(4)	-	-	-	(4)	-	-	-	-	-
Exchange rate differences and other changes	1	-	-	(1)	-	-	(6)	-	-	(6)
Present value of benefit obligation at end of year	52	181	23	41	297	50	153	20	54	277
Plan assets at beginning of year	-	86	-	-	86	-	86	-	-	86
Interest income	-	3	-	-	3	-	2	-	-	2
Return on plan assets	-	(2)	-	-	(2)	-	4	-	-	4
Past service cost and gains/losses arising from settlements	-	(5)	-	-	(5)	-	(18)	-	-	(18)
Contributions to plan:	-	9	-	-	9	-	6	-	-	6
- contributions to plan by employees	-	-	-	-	-	-	-	-	-	-
- contributions to plan by employer	-	9	-	-	9	-	6	-	-	6
Benefits paid	-	(4)	-	-	(4)	-	(3)	-	-	(3)
Exchange rate differences and other changes	-	(1)	-	-	(1)	-	(6)	-	-	(6)
Plan assets at year end	-	86	-	-	86	-	71	-	-	71
Net liability	52	95	23	41	211	50	82	20	54	206

In the course of the year 2016 the regulations for Norway's pension plans were reviewed within the context of foreign defined benefit plans. Within the scope of these plans, a significant part of the benefit initially described as a defined benefit plan was changed, becoming, in accordance with IAS 19, a defined contribution plan. The corresponding effect was a reduction of approximately €7 million of net liabilities associated with the plan. As required by the accounting principle, this reduction was recognised directly in the income statement of the year 2016.

The value of the net liability for other provisions for long-term employee benefits of €54 million (€41 million at December 31, 2015) related to deferred monetary incentives of €3 million (€3 million at December 31, 2015), jubilee awards (€7 million; €10 million at December 31, 2015), the long-term incentive plan (€3 million; €2 million at December 31, 2015), voluntary redundancy incentive plans (€10 million) and other long-term overseas plans (€31 million; €26 million at December 31, 2015).

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

(€ million)	Dec. 31, 2015					Dec. 31, 2016				
	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits	Total
Current cost	-	17	1	14	32	-	17	1	6	24
Past service cost and gains/losses arising from settlements	-	(2)	-	-	(2)	-	(9)	-	9	-
Net interest expense (income):										
- interest expense on obligation	1	7	-	1	9	1	5	-	1	7
- interest income on plan assets	-	(3)	-	-	(3)	-	(2)	-	-	(2)
Total net interest income (expense)	1	4	-	1	6	1	3	-	1	5
<i>of which recognised in payroll costs</i>	-	-	-	1	1	-	-	-	1	1
<i>of which recognised in finance income (expense)</i>	1	4	-	-	5	1	3	-	-	4
Remeasurement of long-term plans	-	-	-	(11)	(11)	-	-	-	5	5
Total	1	19	1	4	25	1	11	1	21	34
<i>of which recognised in payroll costs</i>	-	15	1	4	20	-	8	1	21	30
<i>of which recognised in finance income (expense)</i>	1	4	-	-	5	1	3	-	-	4

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

(€ million)	2015				2016			
	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	-	3	-	3	-	(4)	-	(4)
- actuarial gains and losses arising from changes in financial assumptions	-	(7)	-	(7)	2	7	-	9
- experience adjustments	(3)	2	-	(1)	1	-	(3)	(2)
- return on plan assets	-	2	-	2	-	(4)	-	(4)
Total	(3)	-	-	(3)	3	(1)	(3)	(1)

Plan assets consisted of the following:

(€ million)	Cash and cash equivalents	Equity instruments	Debt instruments	Real estate	Derivative financial instruments	Mutual funds	Assets held by insurance companies	Structured debt securities	Other assets	Total
Plan assets:										
- prices quoted in active markets	12	13	24	3	10	4	2	-	3	71
- prices not quoted in active markets	-	-	-	-	-	-	-	-	-	-
Total	12	13	24	3	10	4	2	-	3	71

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

		TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits
2015					
Main actuarial assumptions:					
- discount rates	(%)	2	2.00-12.00	2.00-8.03	0.50-12.00
- rate of compensation increase	(%)	2	1.50-14.00	-	1.00-14.00
- expected rate of return on plan assets	(%)	-	2.50-3.65	-	-
- rate of inflation	(%)	2	1.50-9.00	2.00-6.00	2.00-9.00
- life expectancy at 65 years	(years)	-	15-25	20-25	-
2016					
Main actuarial assumptions:					
- discount rates	(%)	1	1.00-15.85	1.00-6.80	0.50-7.90
- rate of compensation increase	(%)	1	1.00-14.00	-	1.00-14.00
- expected rate of - rate of inflationreturn on plan assets	(%)	-	2.60-6.80	-	-
- rate of inflation	(%)	1	1.00-12.00	1.00-5.00	1.00-4.00
- life expectancy at 65 years	(years)	-	15-25	20-25	-

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

		Eurozone	Rest of Europe	Africa	Other
2015					
Discount rates	(%)	0.50-2.00	2.50-3.65	3.50-12.00	2.20-8.80
Rate of compensation increase	(%)	2.00-3.13	2.50	1.00-14.00	2.50-12.00
Rate of inflation	(%)	2.00	1.50-2.95	3.50-9.00	2.00-7.00
Life expectancy at 65 years	(years)	22-25	15-25	15	17
2016					
Discount rates	(%)	0.50-1.00	2.60	3.50-15.85	1.75-8.10
Rate of compensation increase	(%)	1.00-2.00	2.25	1.00-14.00	2.50-7.00
Rate of inflation	(%)	1.00	1.50-3.25	3.50-12.00	2.00-5.00
Life expectancy at 65 years	(years)	22-25	15-25	15	17

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:

	Discount rate		Rate of inflation		Rate of compensation increase	Expected rates of pension increases	Medical cost trend rates
(€ million)	0.5% increase	0.5% decrease	0.5% increase	0.5% increase	0.5% increase	0.5% increase	1% increase
Impact on net defined benefit obligation	(14)	16	4	7	1	2	
TFR	(2)	3	2	-	-	-	
Foreign defined benefit plans	(8)	10	2	6	1	-	
FISDE and other foreign health plans	(2)	1	-	-	-	2	
Other provisions for long-term employee benefits	(2)	2	-	1	-	-	

The sensitivity analysis was performed by applying the modified parameters to the results of the analyses conducted for each plan.

The amount expected to be accrued to foreign defined benefit plans in the subsequent year is €5 million.

The maturity profile of employee defined benefit plan obligations is as follows:

(€ million)	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits
2017	2	12	1	12
2018	2	9	1	12
2019	2	10	1	5
2020	3	10	1	4
2021	3	11	1	1
After	18	54	4	7

The weighted average duration of obligations is as follows:

(years)	TFR	Foreign defined benefit plans	FISDE and other foreign health plans	Other provisions for long-term employee benefits
2015	11	13	16	8
2016	10	13	15	7

22 Deferred tax liabilities

Deferred tax liabilities of €59 million (€10 million at December 31, 2015) are shown net of offsettable deferred tax assets of €174 million.

(€ million)	Dec. 31, 2015	Additions	Deductions	Currency translation differences	Other changes	Dec. 31, 2016
Deferred tax liabilities	10	58	(140)	(6)	137	59
Total	10	58	(140)	(6)	137	59

The item 'Other changes', which amounted to positive €137 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (positive €107 million); (ii) the positive tax effects (€30 million) of fair value changes of derivatives designated as cash flow hedges reported in equity;

A breakdown of deferred tax assets is provided in Note 12 'Deferred tax assets'.

23 Other non-current liabilities

Other non-current liabilities of €3 million (€42 million at December 31, 2015) were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Fair value of hedging derivatives	5	3
Trade and other payables	37	-
Total	42	3

SHAREHOLDERS' EQUITY

24 Non-controlling interests

Non-controlling interests at December 31, 2016 amounted to €19 million (€45 million at December 31, 2015). The composition of the non-controlling interests is shown below.

(€ million)	Net profit (loss) for the year		Shareholders' equity	
	2015	2016	2015	2016
ER SAI Caspian Contractor Llc	6	-	41	5
Saudi Arabian Saipem Ltd	14	4	4	10
Snamprogetti Engineering & Contracting Co Ltd	-	2	(2)	2
Other	(3)	1	2	2
Total	17	7	45	19

During 2016 there were no changes in ownership interests that did not result in loss or acquisition of control.

25 Saipem's shareholders' equity

Saipem's shareholders' equity at December 31, 2016 amounted to €4,866 million and was as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Share capital	441	2,191
Share premium reserve	55	1,750
Legal reserve	88	88
Cash flow hedge reserve	(267)	(182)
Cumulative currency translation differences	76	32
Employee defined benefits reserve	(18)	(20)
Other	6	2
Retained earnings (losses)	3,942	3,161
Net profit (loss) for the year	(806)	(2,087)
Negative reserve for treasury shares in portfolio	(43)	(69)
Total	3,474	4,866

Saipem's shareholders' equity at December 31, 2016 included distributable reserves of €269 million (€1,951 million at December 31, 2015).

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 (€36 million).

26 Share capital

At December 31, 2016, the share capital of Saipem SpA, fully paid-up, amounted to €2,191 million, corresponding to 10,109,774,396 shares, none with a nominal value, of which 10,109,668,270 are ordinary shares and 106,126 savings shares.

At December 31, 2015, the share capital of Saipem SpA, fully paid-up, amounted to €441 million, the change (€1,750 million) is due to the share capital increase completed on February 23, 2016.

On April 29, 2016, the Annual Shareholders' Meeting resolved to forego the distribution of a dividend for ordinary shares and for savings shares.

27 Share premium reserve

At December 31, 2016, this amounted to €1,750 million, and to €55 million compared to December 31, 2015 (up €1,695 million) following the share capital increase.

28 Other reserves

At December 31, 2016, 'Other reserves' amounted to negative €80 million (negative €115 million at December 31, 2015) and consisted of the following items.

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Legal reserve	88	88
Cash flow hedge reserve	(267)	(182)
Cumulative currency translation differences	76	32
Employee defined benefits reserve	(18)	(20)
Other	6	2
Total	(115)	(80)

Legal reserve

At December 31, 2016, the legal reserve stood at €88 million. This represents the portion of profits of the parent company Saipem SpA, accrued as per Article 2430 of the Italian Civil Code, that cannot be distributed as dividends.

Cash flow hedge reserve

This reserve showed a negative balance at period end of €182 million (negative balance of €267 million at December 31, 2015), which related to the fair value of interest rate swaps, commodity hedges and the spot component of foreign exchange risk hedges at December 31, 2016.

The cash flow hedge reserve is shown net of tax effects of €63 million (€100 million at December 31, 2015).

Cumulative currency translation differences

This reserve amounted to positive €32 million (positive €76 million at December 31, 2015) and related to exchange rate differences arising from the translation into euro of financial statements denominated in functional currencies other than euro (mainly the US Dollar).

Employee defined benefits reserve

This reserve is used to recognise remeasurements of employee defined benefit plans. At December 31, 2016, it had a negative balance of €20 million (negative €18 million at December 31, 2015). The reserve is shown net of tax effects.

Other

This item amounted to €2 million (€6 million at December 31, 2015). At December 31, 2016, only the revaluation reserve comprised of the positive revaluation balance following the application of Italian Law No. 413 dated December 30, 1991, Article 26 remains in place. If distributed, 5% of the reserve is to form part of the taxable income and is subject to taxation at 27.5% for 2016 and at 24% starting in 2017.

29 Negative reserve for treasury shares in portfolio

The negative reserve amounts to €69 million and contains the value of the treasury shares allocated to the implementation of the stock grant plans in favour of the Group's senior managers.

In particular, in the course of the financial year, 69,121,512 treasury shares for an exchange value of €26,413 thousand were purchased, to which the treasury shares remaining following the expiry of the previous incentive plans are added, equivalent to 1,939,832 shares for a value of €42,869 thousand.

The treasury shares as of December 31, 2016, are analysed in the table below:

	Number of shares	Average cost (€)	Total cost (€ million)	Share capital (%)
Shares left over from previous incentive plans	1,939,832	22.099	42,869	0.02
Purchases year 2016	69,121,512	0.382	26,413	0.68
Treasury shares held at December 31, 2016	71,061,344	0.975	69,282	0.70

At December 31, 2016, share capital amounted to €2,191,384,693. On the same day, the number of shares in circulation was 10,038,713,052.

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, 2015		Dec. 31, 2016	
	Net profit (loss) for the year	Shareholders' equity	Net profit (loss) for the year	Shareholders' equity
As reported in Saipem SpA's financial statements	(127)	1,301	(808)	3,948
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	(850)	1,581	(993)	723
Consolidation adjustments, net of effects of taxation:				
- difference between purchase cost and underlying book value of shareholders' equity	(7)	801	(4)	797
- elimination of unrealised intercompany profits (losses)	30	(343)	37	(310)
- other adjustments	165	179	(312)	(273)
Total shareholders' equity	(789)	3,519	(2,080)	4,885
Non-controlling interests	(17)	(45)	(7)	(19)
As reported in the consolidated financial statements	(806)	3,474	(2,087)	4,866

30 Additional information

Supplement to cash flow statement

(€ million)	Dec. 31, 2015
Analysis of disposals of consolidated entities and business branches	
Current assets	-
Non-current assets	1
Net liquidity (net borrowings)	-
Current and non-current liabilities	(6)
Net effect of disposals	(5)
Fair value of interest after control has ceased	-
Gain (loss) on disposals	51
Non-controlling interests	-
Total sale price	46
less:	
Cash and cash equivalents	-
Cash flows from disposals	46

No cash flows relating to acquisitions or disposals were registered in 2016.

Disposals in 2015 concerned the sale of the Saipem SpA businesses Servizi Ambiente and Centro Esecuzione Progetti Roma-Vibo, to Syndial SpA and Tecnomare SpA.

31 Guarantees, commitments and risks

Guarantees

Guarantees amounted to €7,110 million (€7,038 million at December 31, 2015), and were as follows:

(€ million)	Dec. 31, 2015			Dec. 31, 2016		
	Unsecured	Other guarantees	Total	Unsecured	Other guarantees	Total
Joint ventures and associates	221	136	357	202	54	256
Consolidated companies	75	1,947	2,022	183	1,334	1,517
Own	22	4,637	4,659	16	5,321	5,337
Total	318	6,720	7,038	401	6,709	7,110

Other guarantees issued for consolidated companies amounted to €1,334 million (€1,947 million at December 31, 2015) 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 44 'Transactions with related parties'.

For details on amounts relating to projects executed in Algeria, see Note 48 '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, joint ventures or associated companies in the event of non-performance and payment of any damages arising from non-performance. These commitments guarantee contracts whose overall value amounted to €48,354 million (€44,187 million at December 31, 2015), including both work already performed and the relevant portion of the backlog of orders at December 31, 2016.

The obligation to repay the bank loans granted to Saipem Group are generally secured by guarantees issued by Saipem SpA and other Group companies. The obligation to repay the Group's bond issues are secured by guarantees issued by Saipem SpA and other Group companies.

Additional information on financial instruments

FINANCIAL INSTRUMENTS - CARRYING AMOUNTS AND EFFECT ON INCOME STATEMENT AND EQUITY

The carrying amounts and effect on income statement and equity of financial instruments were as follows:

(€ million)	Carrying amount	Income (charges) recorded in the income statement	Income (charges) recorded in shareholders' equity
Financial instruments held for trading			
Non-hedging derivatives ^(a)	(61)	(153)	-
Available-for-sale financial assets			
Securities	55	-	-
Financial assets being fixed assets			
Investments measured at fair value	1	-	1
Receivables and payables and other assets (liabilities) measured at amortised cost			
Trade and other receivables ^(b)	3,014	48	-
Financial receivables ^(c)	6	170	-
Trade and other payables ^(d)	4,860	10	-
Financial payables ^(e)	3,397	(140)	-
Net hedging derivative assets (liabilities) ^(f)	(110)	(168)	125

(a) The income statement effects relate only to the income (expense) indicated in note 39 'Finance income (expense)'.

(b) The income statement effects were recognised in 'Purchases, services and other expenses' of €176 million (relating to impairments and losses on receivables) and in 'Finance income (expense)' of €48 million, relating to currency translation gains (losses) arising from adjustments to the year-end exchange rate).

(c) The income statement effects of €169 million were recognised in 'Finance income (expense)'.

(d) Income statement effects of €10 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 €48 million arising from adjustments to the year-end exchange rate were recognised in 'Finance income (expense)' and of €92 million in 'Finance income (expense)' related to net borrowings.

(f) Income statement effects of €169 were recognised in 'Net sales from operations' and in 'Purchases, services and other costs'.

FAIR VALUE MEASUREMENT

Below, financial assets and liabilities measured at fair value in the balance sheet are classified using the 'fair value hierarchy' based on the significance of the inputs used in the measurement process. The fair value hierarchy consists of the following three levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for assets or liabilities that are not based on observable market data.

Financial instruments measured at fair value at December 31, 2016 are classified as follows:

(€ million)	Dec. 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets being fixed assets				
- investments measured at fair value	1	-	-	1
Held for trading financial assets (liabilities):				
- non-hedging derivatives	-	(61)	-	(61)
Available-for-sale financial assets:				
- securities	55	-	-	55
Net hedging derivative assets (liabilities)	-	(110)	-	(110)
Total	56	(171)	-	(115)

In the normal course of its business, Saipem uses various types of financial instrument. The information regarding their fair value is as follows.

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.

(€ million)	Notional amount at Dec. 31, 2016
Interest rate swaps	1,450

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, 2015	Dec. 31, 2016
Notional amount	(€ million)	250	1,450
Weighted average rate received	(%)	0.094	0.129
Weighted average rate paid	(%)	0.185	-
Weighted average maturity	(years)	2	4

The underlying hedged transactions are expected to occur by December 2020.

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, 2015	Notional amount at Dec. 31, 2016
Forward foreign exchange contracts	2,765	2,624

The table below shows forward foreign exchange contracts and other instruments used to manage the exchange rate risk for the principal currencies.

(€ million)	Notional amount at			
	Dec. 31, 2015		Dec. 31, 2016	
	Purchase	Sell	Purchase	Sell
AUD	80	47	6	3
BRL	-	-	-	52
CAD	8	-	4	25
CHF	-	31	-	1
CNY	4	-	-	-
EUR	145	21	134	-
GBP	128	37	131	15
JPY	41	1	17	9
KWD	227	511	3	217
MXN	-	-	-	-
NOK	67	62	27	22
PLN	-	-	-	-
SAR	-	-	73	324
SGD	606	20	498	48
USD	3,160	6,501	792	3,593
Total	4,466	7,231	1,685	4,309

The table below shows the hedged future cash flows at December 31, 2016, by time period of occurrence and expressed in euro.

(€ million)	First quarter 2017	Second quarter 2017	Third quarter 2017	Fourth quarter 2017	2018 and beyond	Total
Revenues	519	581	508	401	721	2,730
Expenses	309	310	242	152	410	1,423

COMMODITY PRICE RISK

Saipem only enters into commodity contracts with the purpose of managing its commodity price risk exposure. The table below shows notional amounts for forward commodity contracts entered into.

(€ million)	Notional amount at			
	Dec. 31, 2015		Dec. 31, 2016	
	Purchase	Sell	Purchase	Sell
Forward commodity contracts	-	-	6	-

The table below shows the hedged future cash flows at December 31, 2016, by time period of occurrence and expressed in euro.

(€ million)	First quarter 2017	Second quarter 2017	Third quarter 2017	Fourth quarter 2017	2018 and beyond	Total
Expenses	-	-	-	-	6	6

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. The information available for the purposes of Company evaluation as regards criminal proceedings during the investigation is by its very nature incomplete due to the principle of pre-trial secrecy. A brief summary of the most important pending judicial proceedings is provided below.

Algeria

The 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' mentioned in the 'Request to provide documentation' is sanctioned by Legislative Decree No. 231 of June 8, 2001, concerning the direct liability of collective entities arising from certain offences involving their 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.

These proceedings involved, amongst others, some former employees of the Company (including in particular the former Vice Chairman and CEO, the former Chief Operating Officer of the Engineering & Construction Business Unit and the former Chief Financial Officer). On all occasions, the Company cooperated fully with the office of the Public Prosecutor. Saipem rapidly implemented decisive managerial and administrative restructuring measures, irrespective of any liability that might result from the investigations. In agreement with the Board of Statutory Auditors and the Internal Control Bodies, and having duly informed the Prosecutor's Office, Saipem looked into the contracts subject to investigation, and to this end appointed an external legal firm. On July 17, 2013, the Board of Directors analysed the conclusions reached by the external consultants following an internal investigation carried out in relation to a number of brokerage contracts and subcontracts regarding projects in Algeria. The internal investigation was based on the examination of documents and interviews of personnel from the Company and other companies in the Group, excluding those, that to the best knowledge of the Company, would be directly involved in the criminal investigation so as not to interfere in the investigative activities of the Prosecutor. The Board, confirming its full cooperation with the investigative authorities, has decided to convey the findings of the external consultants to the Milan Public Prosecutor, for any appropriate assessment and initiative within his competence in the wider context of the ongoing investigation. The consultants reported to the Board: (i) that they found no evidence of payments to Algerian public officials through the brokerage contracts or subcontracts examined; (ii) that they found violations, deemed detrimental to the interests of the Company, of internal rules and procedures – in force at the time – in relation to the approval and management of brokerage contracts and subcontracts examined and to 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 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' of the preliminary investigations. On October 24, 2014, notice was received of a request from the Milan Public Prosecutor for gathering evidence before trial, by way of questioning of the former Chief Operating Officer of the Saipem Engineering & Construction Business Unit and another former manager of Saipem, who are both being investigated in the criminal proceedings. After the request was granted, the Judge for the Preliminary Hearing in Milan set hearings for December 1 and 2, 2014. On January 15, 2015, the Saipem SpA defence counsel received notice from the Milan Public Prosecutor's office of the conclusion of preliminary investigations, pursuant to Article 415-*bis* of the Italian Code of Criminal Procedure. Notice was also received by eight physical persons and the legal person of Eni SpA. In addition to the crime of 'international corruption' specified in the request from the Milan Public Prosecutor's office, the notice also contained an allegation against seven physical persons of a violation of Article 3 of Legislative Decree No. 74 of March 10, 2000 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'.

Tax disputes: on February 5, 2015, the Milan tax unit of the Guardia di Finanza (Italian Finance Police) conducted a tax inspection at Saipem SpA premises. The official minutes describe the inspection as having focused on: 'a) *Ires* (Italian corporate income tax) and *Irap* (Italian regional production tax) for tax periods from January 1, 2008 to December 31, 2010, as well as fiscally relevant aspects elements emerging from checks performed as part of criminal proceedings No. 58461/14 - mod. 21 instituted by the Public Prosecutor's office of the Court of Milan (Substitute Public Prosecutors Fabio De Pasquale, Giordano Baggio and Isidoro Palma) [Algeria affair]; (omissis) b) identifying, for the 2010 tax period only, transactions with companies resident or domiciled in

non-EU countries or territories with preferential tax regimes (Article 110, paragraph 10 et seq. of the Italian Consolidated Income Tax Act); – verifying the compliance of the tax position of company employees for the year 2015 (up until the day of the inspection). In connection with point a) of the tax inspection, on April 14, 2015, the Guardia di Finanza served Saipem SpA with a tax audit report in which the following costs were deemed as non-deductible because they were alleged to be 'costs arising from the commission of crimes' (pursuant to Article 14, paragraph 4-bis of Law No. 437/1993):

- amounts paid in 2008 and 2009 by Snamprogetti SpA and Saipem SpA to Pearl Partners totalling approximately €140 million;
- the costs allegedly over-invoiced to Saipem by a subcontractor in 2009 and 2010 amounting to approximately €41.5 million.

Saipem SpA did not concur with the findings contained in the tax audit report and, on June 12, 2015, pursuant to Article 12, paragraph 5, of Law No. 212/2000 (the Italian Taxpayers' charter), presented its defence to the Large Taxpayers Unit of the Italian Revenue Agency's Lombardy Regional Tax Office, to which the Guardia di Finanza had transmitted the report, requesting that the question be closed. On July 9, 2015, the Large Taxpayers Unit of the Italian Revenue Agency's Lombardy Regional Tax Office served Saipem with four tax assessment notices relating to Ires and Irap taxes for 2008 and 2009. The total amounts requested in the four notices for taxes due, interest and fines, amounted to approximately €155 million (these notices were in reference only to a part of the costs connected with 2008 and 2009 annuities which, according to the Guardia di Finanza, were not deductible). On October 8, 2015, Saipem filed four substantially identical appeals to the Provincial Tax Commission, within the legal time limits, requesting on the merits that the assessments be cancelled.

The notices of assessment served on Saipem SpA have immediate effect (Article 29 of Legislative Decree No. 78/2010). Having decided not to file for the suspension of the execution of these notices, on January 15, 2016 the Company, while awaiting the decision of the Provincial Tax Commission in Milan, as a provisional measure, paid in a sum equal to one third of the taxes claimed, plus interest, increased by the penalty premium and interest accrued between the day following receipt of the notices of assessment and the date of payment. In January 2017, the Provincial Tax Commission in Milan partially upheld Saipem's appeals, mainly for the part concerning the cancellation of the notices of assessment regarding Irap due to their expiry in the interim, but has rejected all of its other grievances, despite the fact that the criminal court has not yet passed judgement on the issue. The overall value of the dispute has therefore been reduced to an amount of approximately €125 million plus interest. Saipem will lodge an appeal against the tax decision in the first instance, trusting that it will be accepted. Consequently, Saipem is obliged to pay the sum of approximately €69 million, equivalent to two-thirds of the taxes, the interest and fines resulting from the ruling, net of what it had already paid in as a provisional measure.

On December 29, 2016, the Italian Revenue Agency served a notice of assessment for the financial year 2010 (further information on which is provided in the section 'Significant tax disputes'), confirming, with regard to the case in question, the contents of the tax audit report of the Guardia di Finanza which had charged Saipem with approximately €28 million as non-deductible costs for the purposes of Ires and Irap, because allegedly instrumental to the committing of the type of crime related to previous activities in Algeria.

Saipem will appeal to the Provincial Tax Commission in Milan against this notice of assessment.

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) that the charges be dismissed on grounds of lack of jurisdiction over 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 Managing Director-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, on the basis of criteria of mere favouritism, Saipem to win seven contracts in Algeria. 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 decisions. On February 24, 2016, the Court of Cassation upheld the appeal lodged by the Milan Public Prosecutor 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 Milan Public Prosecutor, 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 up to 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 decrees of committal to trial.

At the hearing of February 29, 2016, the Court combined the proceedings with another pending case against a sole accused (a physical person against whom Sonatrach had appeared as a plaintiff) and rejected the claims of invalidity of the decrees of committal to trial, calling on the Public Prosecutor to restate the charges against a sole accused and adjourning the hearing to March 21, 2016. The Court then adjourned the proceedings to the hearing of December 5, 2016 in order to assess whether to group it with the proceedings described earlier (the so-called Eni branch) for which the Judge for the Preliminary Hearing ordered the committal for trial of all the accused parties on July 27, 2016.

With the order of December 28, 2016, the President of the Court of Milan authorised the abstention request of the Chairman of the Panel of judges.

At the hearing on January 16, 2017, the two proceedings (the so-called Saipem branch and the so-called Eni branch) were grouped together before a new panel appointed on December 30, 2016 and the Court ordered the adjournment to May 8, 2017.

Request for documents from the US Department of Justice: at the request of the US Department of Justice (DoJ), in 2013 Saipem SpA entered into a 'tolling agreement' which extended by 6 months the limitation period applicable to any possible violations of federal laws of the United States in relation to previous activities of Saipem and its subsidiaries. The tolling agreement, which has been renewed until November 29, 2015, does not constitute an admission by Saipem SpA of having committed any unlawful act, nor does it imply any recognition on the Company's part of United States jurisdiction in relation to any investigation or proceedings. Saipem therefore offered its complete cooperation in relation to investigations by the Department of Justice, which on April 10, 2014 made a request for documentation relating to past activities of the Saipem Group in Algeria, with which Saipem has complied. On November 29, 2015, the tolling agreement expired and, at the time of writing, no request for an extension has been received from the Department of Justice.

Proceedings in Algeria: in Algeria in 2010 proceedings were initiated regarding various matters and involving 19 parties investigated for various reasons (so-called 'Sonatrach 1 investigation'). The Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures SpA ('Sonatrach') appeared as plaintiff in these proceedings and the Algerian Trésor Public also applied to appear as a plaintiff.

The Algerian company Saipem Contracting Algérie SpA ('Saipem Contracting Algérie') is also part of these proceedings regarding the manner in which the GK3 contract was assigned by Sonatrach. In the course of these proceedings, some bank accounts denominated in local currency of Saipem Contracting Algérie were frozen.

In particular, in 2012 Saipem Contracting Algérie received formal notice of the referral to the Chambre d'accusation at the Court of Algiers of an investigation underway into the company regarding allegations that it took advantage of the authority or influence of representatives of a government-owned industrial and trading company in order to inflate prices in relation to contracts awarded by that company. The GK3 contract was awarded in June 2009 and had an equivalent value of €433.5 million (at the exchange rate in effect when the contract was awarded).

At the beginning of 2013, the 'Chambre d'accusation' ordered Saipem Contracting Algérie to stand trial and further ordered that the aforementioned current accounts remain frozen. According to the prosecution, the price offered was 60% over the market price. The prosecution also claimed that, following a discount negotiated between the parties subsequent to the offer, this alleged increase was reduced by up to 45% of the price of the contract awarded. In April 2013 and in October 2014, the Algerian Supreme Court rejected a request to unfreeze the bank accounts that had been made by Saipem Contracting Algérie in 2010. The documentation was then transmitted to the Court of Algiers which, in the hearing of March 15, 2015, adjourned the proceedings to the hearing of June 7, 2015, during which, in the absence of certain witnesses, the Court officially handed over the case to a criminal court. The trial commenced with the hearing fixed for December 27, 2015. In the hearing of January, 20, 2016, the Algiers Public Prosecutor requested the conviction of all 19 defendants accused in the 'Sonatrach 1' trial.

The Algiers Public Prosecutor requested that Saipem Contracting Algérie be fined 5 million Algerian dinars (approximately €43,000 at the current rate of exchange).

The Algiers Public Prosecutor also requested the confiscation of the alleged profit, that will be ascertained by the Court, of all 19 parties whose conviction has been requested (including Saipem Contracting Algérie).

For the offence with which Saipem Contracting Algérie is charged, local regulations prescribe a fine as the main punishment (up to a maximum of about €50,000) and allow, in the case of the alleged offence, additional sanctions such as the confiscation of the profit arising from the alleged offence (which would be the equivalent of the amount allegedly over the market price of the GK3 contract as far as the profit is ascertained by the judicial authority) and/or disqualification sanctions.

On February 2, 2016, the Court of Algiers issued the first instance ruling. Amongst other things, this ruling ordered Saipem Contracting Algérie to pay a fine of about 4 million Algerian Dinars (corresponding to about €34,000). In particular Saipem Contracting Algérie was held to be responsible, in relation to the call for bids for the construction of the GK3 gas pipeline, of 'an increase in price during the awarding of contracts signed with a public company of an industrial and commercial character in a

way that causes benefit to be derived from the authority or influence of representatives of said company', an act punishable according to Algerian law. The ruling also returned two bank accounts denominated in local currency to Saipem Contracting Algérie. These held a total of about €83 million (amount calculated at the exchange rate obtaining at December 31, 2016), which were frozen in 2010.

The client 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 therefore, the ruling of February 2, 2016 of the Court of Algiers was challenged: by Saipem Contracting Algérie (which requested acquittal and had announced that it would challenge the decision); by the Prosecutor General (who had requested the imposition of a fine of 5 million Algerian dinars and the confiscation, requests that were rejected by the Court, which, as said, fined Saipem Contracting Algérie the lesser amount of about 4 million Algerian dinars); by the Trésor Civil (whose request to be admitted as plaintiff against Saipem Contracting Algérie had been – as already stated – rejected by the Court); by all the other parties sentenced, in relation to the cases concerning them.

Owing to these challenges, the decision of the Court of Algiers was fully suspended and pending the ruling of the Court of Cassation:

- the payment of the fine of approximately €34,000 is suspended; and
- the unfreezing of the two banks accounts containing a total of about €83 million (amount calculated at the exchange rate obtaining at December 31, 2016) is suspended. Sonatrach has not challenged the decision of the Court, consistently with its request, accepted by the Court, to be allowed to claim compensation subsequently in civil proceedings. No such civil action has so far been brought by Sonatrach, and neither has Sonatrach indicated the amount of the alleged damage.

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 (so-called 'Sonatrach 2' investigation) underway 'into Saipem for charges pursuant to Articles 25a, 32 and 53 of Anti-Corruption Law No. 01/2006'. The investigating judge also requested documentation (Articles of Association) and other information concerning Saipem Contracting Algérie, Saipem and Saipem SA.

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

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

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

In particular, on June 19, 2015, Saipem do Brasil learned through the media of the arrest (in regard to allegations of money laundering, corruption and fraud) of a former collaborator, as a result of a measure taken by the Brazilian Public Prosecutor's office of Curitiba, in the framework of a judicial investigation in progress in Brazil since March 2014 (so-called 'Lava Jato' investigation). On July 29, 2015, Saipem do Brasil then learned through the press that, in the framework of the conduct alleged against the former collaborator of Saipem do Brasil, the Brazilian Public Prosecutor's office also alleges that Petrobras was unduly influenced in 2011 to award Saipem do Brasil a contract called 'Cernambi' (for a value of approximately €115 million). This is purportedly deduced from the circumstance that in 2011, in the vicinity of the Petrobras headquarters, said ex collaborator of Saipem do Brasil claims to have been the target of a robbery in which approximately 100,000 reais (approximately €26,000) just withdrawn from a credit institution were stolen from him. According to the Brazilian prosecutor, the robbery allegedly took place in a time period prior to the award of the aforesaid 'Cernambi' contract.

Saipem SpA is cooperating fully with the investigations and has started an audit with the assistance of a third-party consultant. The audit examined the names of numerous companies and persons reported by the media as being under investigation by the Brazilian judicial authorities. The audit report, issued on July 14, 2016, recognised the absence of communications or documents relating to transactions and/or financial movements between companies of the Saipem Group and the personnel of Petrobras under investigation. The audit report was forwarded by Saipem SpA to the Milan Public Prosecutor's office and to Consob as a mark of transparency.

The witnesses heard so far in the criminal proceedings underway in Brazil against this former collaborator, as well as in the framework of the works of the parliamentary investigative committee set up in Brazil on the 'Lava Jato' case, have stated that they were unaware of any irregularities regarding Saipem's activities. Also the former collaborator of Saipem do Brasil – who during 2015 agreed to cooperate with the judicial authorities – has not, at the time of writing, reported any unlawful acts relating to companies of the Saipem Group and, regarding the robbery of 100,000 Brazilian reais (approximately €26,000) of which he was a victim in October 2011, stated that it was money needed to pay expenses relating to buildings of a company he managed on behalf of a third party with respect to Saipem. The hearing set for November 11, 2015, in which the former collaborator of Saipem do Brasil and another two defendants were to be questioned, has been postponed to a later date to be set. Petrobras appeared as a plaintiff ('Assistente do Ministerio Publico') in the proceedings against the three physical persons charged. The proceedings and the relevant investigations are still in progress in Brazil.

The Saipem Group has not received any notification in this regard from the Brazilian judicial authorities.

Kuwait

On June 21, 2011, a warrant requested by the Milan Public Prosecutor was served on Saipem SpA for the search of the office of a former Saipem employee. The warrant was issued in connection with alleged crimes committed by said former employee together with third parties related to the award of tenders by Saipem SpA to third party companies for a project in Kuwait. In

connection with the same matter, the Public Prosecutor also served a notification of inquiry upon Saipem SpA pursuant to Italian Legislative Decree No. 231/2001.

In March 2017, Saipem SpA learned that the Public Prosecutor decided to close the investigation without further action against Saipem SpA and that the judicial authorities had already taken a similar decision to close the investigation without further action against the aforementioned former employee of Saipem SpA.

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 then appeared as a plaintiff against the physical and legal persons involved in any way in operations concerning the company and reached settlement agreements for compensation for damages with parties that requested to plea bargain. The proceedings, after the termination of the preliminary hearing, continue against the former employees of the aforesaid companies and against employees and senior executives of supplier companies and the same supplier companies in accordance with Legislative Decree No. 231/2001. Eni SpA, EniPower SpA and Snamprogetti SpA appeared as plaintiffs in the preliminary hearing. In the preliminary hearing related to the main proceeding of April 27, 2009, The judge committed for trial all parties who had not requested to plea bargain, except for certain parties protected by the statute of limitations. 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 persons bearing civil responsibility of the further companies involved were also cited. Subsequently, at the hearing of September 20, 2011, sentence was passed which included several convictions and acquittals for numerous physical and legal defendants, the latter being deemed responsible for unlawful administrative acts, with fines being imposed and value confiscation for significant sums ordered. The Court likewise rejected the admission as plaintiffs of the parties accused of unlawful administrative acts pursuant to Legislative Decree No. 231/2001. On December 19, 2011, the grounds for the ruling were filed with the office of the clerk of the Court. The convicted parties challenged the above ruling within the set deadline. On October 24, 2013, the Milan Court of Appeal essentially confirmed the first instance ruling, which it modified only partially in relation to a number of physical persons, against whom it dismissed the charges, ruling that they had expired under the statute of limitations. The accused parties have filed an appeal with the Court of Cassation. On account of the complexity of the issues before it, on September 30, 2015 the Court of Cassation adjourned the hearing to November 10, 2015, upon which date it will make its final decision. On November 10, 2015, Criminal Section VI of the Supreme Court, in its ruling on the appeals lodged by the parties against the ruling of the Milan Court of Appeal, set aside the challenged ruling regarding legal persons, and the civil law rulings regarding physical persons and deferred a new ruling to another section of the Milan Court of Appeal.

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 its 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 were for loss of profit, an item excluded from the contract except for cases of wilful misconduct or gross negligence. STS filed its defence brief, that included 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 (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 13, 2015. On October 21, 2016, a hearing was held before the Conseil d'Etat and on November 9 the latter passed its judgement with which it declared the arbitration award of February 13, 2015 partially null with reference only to the costs for the completion of the works, i.e. mise en régie. In relation exclusively to the above-mentioned mise en régie costs (quantified by Fosmax at approximately €36.4 million, a figure challenged by STS), Fosmax can decide whether to start a new arbitration process. 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, the enforceability of which had been recognised and of which Fosmax had been notified on July 24, 2015 and/or the declaration of invalidity of the relevant exequatur. On February 21, 2017, the Court of Appeal declared its lack of jurisdiction to rule on the annulment of the arbitration award and declared that it would postpone the decision on the question concerning the alleged invalidity of the exequatur.

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

With reference to the contract entered into on March 22, 2009 by Saipem SpA and Saipem Contracting Algérie SpA (collectively, 'Saipem') on the one hand, and Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures SpA ('Sonatrach') and First Calgary Petroleum LP (the latter, 'FCP' and both collectively, the 'Client') on the other hand, for the engineering, procurement and construction of a natural gas gathering and treatment plant and related export pipelines in the MLE field in Algeria, on December 23, 2013 Saipem filed a request for arbitration with the International Chamber of Commerce (ICC) in Paris. 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 grants: (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 overdue invoices and spare parts and acceleration bonuses. Both Sonatrach and FCP (this latter wholly owned by the Eni Group since 2008) have appointed their arbitrator and, on March 28, 2014, filed their respective Answers to the Request for Arbitration. Sonatrach and FCP lodged their own Statements of defence (Mémoires en défense) on August 14, 2015, also introducing counterclaims, which to date amount to a total of approximately €280.5 million equivalent, taking into consideration the new counterclaim, proposed by Sonatrach alone, of a payment in its own favour of 25% of the sum of approximately €133.7 million (a sum equivalent to an allegedly unjustified increase in costs in addition to moral damage, estimated at not less than €20 million). The Arbitration Panel accepted the new petition filed by Sonatrach, on which it will have, therefore, to reach a decision. Saipem filed its reply on January 15, 2016.

Sonatrach and FCP filed their replies on May 15, 2016 and on June 30, 2016 Saipem filed its reply to the counterclaims. The hearings were held in the month of July 2016 and the respective post hearing briefs were filed on December 9, 2016. Any hearings required to reply to the Court's questions will be held on June 15-16, 2017. At the current moment, the issuing of the award is expected within the end of 2017.

Arbitration proceedings regarding LPG project in Algeria

On March 14, 2014, Saipem filed a request for arbitration with the International Chamber of Commerce in Paris in connection with the contract for the construction of the LDHP ZCINA plant (LPG Project) for the 'extraction des liquides des gaz associés Hassi Messaoud et séparation d'huile' (LDHP ZCINA unit for extraction of liquids from associated gas from the Hassi Messaoud field and oil-gas separation), entered into on November 12, 2008 between, on the one hand, Sonatrach, and on the other, Saipem SA and Saipem Contracting Algérie SpA (collectively 'Saipem'). In its request, Saipem asked the Arbitration Tribunal to order Sonatrach to pay the equivalent of approximately €172 million for additional costs incurred as contractor during the execution of the project in relation to variation orders, time extensions, force majeure, non-payment or late payment of invoices and related interest. Sonatrach, in its answer to the request, which it filed on June 10, 2014, denied all liability and asserted a counterclaim requesting that Saipem be ordered to pay liquidated damages for delays amounting to USD 70.8 million. Saipem filed its Mémoire en demande on March 13, 2015, its Mémoire en Réplique et en Réponse à la Demande Reconventionnelle on January 14, 2016, and the post hearing briefs on February 28, 2017, in which it set out its own claims for €97,327,266, USD 15,513,586 and DZD 5,263,509,252 (the equivalent of €161.2 million) plus interest. Sonatrach filed its 'Mémoire en défense' on September 14, 2015, introducing a new counterclaim relating to the request for payment to Sonatrach of the fees paid by Saipem to Pearl Partners relating to the LPG project (about €34.5 million), and moral damage. The Arbitral Tribunal decided not to accept the new counterclaim of Sonatrach because it was filed late.

Sonatrach filed its Mémoire en duplique et réplique à la demande reconventionnelle on June 6, 2016, in which it reiterated its request. Finally Sonatrach has clarified their demands in the post hearing briefs as follows: €35,175,998, USD 9,114,335 and DZD 1,197,009,692 as penalties for delays; USD 194,289,527 for failed plant output (the latter allegedly caused by Saipem on account of its delay in handling several warranty calls); €361,029 and DZD 38,557,206 for expenses incurred by Sonatrach for the management of warranty calls that should have been handled by Saipem. Saipem filed another reply to Sonatrach's counterclaim on September 6, 2016 and, from October 10 to 14, 2016, the hearings were held before the Arbitration Tribunal. On February 28, 2017, the parties exchanged their post-hearing briefs. At the current moment, the issuing of the award is expected within the end of 2017.

Arbitration proceedings regarding LZ2 project in Algeria

On May 12, 2015, Saipem SpA and Saipem Contracting Algérie SpA (collectively 'Saipem') filed a request for arbitration with the International Chamber of Commerce in Paris (ICC) against Sonatrach for payment of €7,165,849.62 and 601,798,393 Algerian Dinars, plus interest, as reimbursement for wrongly applied penalties for delays, extra works and project extension costs. The request relates to the contract for the construction of a pipeline between Hassi R'Mel and Arzew in Algeria entered into by Saipem and Sonatrach on November 5, 2007 ('LZ2 project'). The respondent filed its reply on September 7, 2015, introducing a counterclaim amounting to €8.559 million plus interest and moral injury, to be quantified during the proceedings. The counterclaim relates to the request for payment to Sonatrach of the fees paid to Pearl Partners relating to the LZ2 project (approximately €8.5 million).

On the basis of the arbitration calendar agreed between the parties in the month of May, Saipem filed its own Mémoire en demande on July 29, 2016 and Sonatrach filed its Mémoire en réponse on December 23, 2016, requesting the rejection of all Saipem's claims and specifying its own counterclaim in a total equivalent to approximately €33.84 million (a sum inclusive of the alleged increase of contractual margins and alleged moral damage, estimated at not less than €20 million).

The hearings are expected to be held from December 11-15, 2017. At the current moment, the issuing of the award is expected within the end of 2018.

Arbitration proceedings regarding the Arzew project in Algeria

With reference to the contract for the construction of a natural gas liquefaction plant at Arzew (Algeria) (project GNL3Z Arzew), entered into on July 26, 2008, between Sonatrach, on one side, and Saipem SpA, Saipem Contracting Algérie SpA (jointly 'Saipem') and Chiyoda, on the other, on July 31, 2015 Saipem filed a request for arbitration with the International Chamber of Commerce (ICC) in Paris. In its request, Saipem asked the Arbitration Tribunal to order Sonatrach to pay approximately €550 million for additional costs incurred as contractor during the execution of the project in relation to extra works, time extensions, non-payment or late payment of invoices and related interest. Sonatrach duly filed its reply, on October 28, 2015, asking by way of counterclaim that Saipem be ordered to pay the damages suffered due to alleged instances of non-fulfilment by Saipem, quantifying the related amounts at approximately USD 1.6 billion, Algerian dinars 54 billion, as well as €77.37 million in relation to fees paid by Saipem to Pearl Partners for the Arzew project.

Saipem filed its own Mémoire en demande on November 25, 2016 in which it specified its own requests in the sum of €460,399,704, plus interest. Sonatrach will file its Mémoire en reponse on June 30, 2017. The hearings are scheduled to be held at the end of 2018. At the current moment, the issuing of the award is expected within the end of 2019.

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

With the provision adopted with Resolution No. 18949 of June 18, 2014, Consob decided to apply a monetary fine of €80,000 to Saipem SpA for an alleged delay in the issuing of the profit warning issued by the Company on January 29, 2013 and, 'with a view to completing the preliminary investigation', to transmit a copy of the adopted disciplinary measure to the Public Prosecutor's office at the Court of Milan which, as understood from the notification of a 'request to extend the preliminary investigation period', is investigating Saipem SpA with reference to the allegation of: (i) unlawful administrative acts as per Articles 5, 6, 7, 8 and 25-ter, lett. b) of Legislative Decree No. 231/2001, in relation to the crime referred to in Article 2622 paragraphs 1, 3 and 4 of the Italian Civil Code, allegedly committed from March 13, 2012 to October 24, 2012, as well as from March 13, 2013 to April 2013, with reference to the approval of the annual financial statements of 2011 and 2012 and the assets/liabilities situation of Saipem SpA as of September 30, 2012 and as of March 31, 2013; and (ii) unlawful administrative acts as per Articles 5, 6, 7, 8 and 25-sexies of Legislative Decree No. 231/2001, in relation to the crime referred to in Article 185 of the Consolidated Finance Act, allegedly committed from March 13, 2012 to October 24, 2012, as well as from March 13, 2013 to April 2013, with reference to the approval of the annual financial statements of 2011 and 2012 and the assets/liabilities situation of Saipem SpA as of September 30, 2012 and as of March 31, 2013. In addition to the company, in relation to the same allegations as those above, the managing directors of Saipem SpA in office on the date of approval of the annual financial statements as of December 31, 2011 and on the date of approval of the annual financial statements as of December 31, 2012, are also under investigation.

On July 28, 2014, Saipem SpA lodged an appeal at the Court of Appeal in Milan against the abovementioned decision of Consob to impose a monetary fine. By decree filed on December 11, 2014, the Court of Appeal of Milan rejected the opposition made by Saipem SpA which then appealed to the Court of Cassation against the Decree issued by the Court of Appeal of Milan.

On April 28, 2015 a number of foreign institutional investors initiated legal action against Saipem SpA before the Court of Milan, seeking judgement against the Company for the compensation of alleged damages (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 damages which purportedly derived from the following: (i) with regard to the main claim, from the communication to the markets 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 filed an appearance rejecting the opponent parties demands in their entirety, on the grounds of their being inadmissible and, in any case, unfounded. In November 2015, a hearing was held for the first appearance of the parties. The proceedings are still in their initial stages.

Demands for out-of-court settlement and mediation proceedings: with regard to the alleged delays in providing information to the markets, over 2015 and during the first months of 2016, Saipem SpA has 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.

Those applications where mediation has been attempted, but with no positive outcome, involve four 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 damages for a total amount of about €291 million without specifying the value of the claims for compensation for each investor/fund); (c) in December 2015 by a private investor in the amount of about €200,000; and (d) in March 2016 by 10 institutional investors on their own behalf and/or for the funds managed by each respectively, for a total amount of about €21.9 million (5 of these investors together with another 4 had presented out-of-court applications in September 2015, complaining they had suffered loss and damage for a total amount of about €21.5 million without specifying the value of the compensation sought by each investor/fund. Another 5 of these investors, together with a further 43, had presented out-of-court applications in April 2015 alleging they had suffered damages for an amount of about €159 million without specifying the value of the compensation sought by each investor/fund).

Saipem SpA has replied to the out-of-court claims and the mediation, denying all liability. As at the date of approval of this Annual Report 2016 by the Board of Directors, none of the above-described out-of-court demands or mediation applications have formed the subject matter of legal action before the courts.

Dispute with Husky - Sunrise Energy Project in Canada

On November 15, 2010 Saipem Canada Inc ('Saipem') and Husky Oil Operations Ltd ('Husky') (the latter for account of the Sunrise Oil Sands Partnership formed by BP Canada Energy Group ULC and Husky Oil Sands Partnership, in turn formed by Husky Oil Operations Ltd and HOI Resources Ltd), signed Engineering, Procurement and Construction contract No. SR-071 (the 'Contract'), prevalently on a reimbursable basis, relating to the project 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 commenced a legal action citing Husky, the aforesaid partnerships and the related members before the Court of Queen's Bench of Alberta, requesting, among other things, that the court declare the illegitimacy of the termination of the Contract by Husky and sentence it to the payment of: (i) more than CAD 800 million for damages that include the payments not made on a reimbursable basis, damages resulting from the termination of the contract, lost profits and the unjustified enrichment of Husky at the expense of Saipem; or, alternatively, (ii) the market value of the services, materials and financing rendered.

In September 2015, Husky notified Saipem of a Request for Arbitration (Alberta Arbitration Act), affirming that, as a result of the reduction of the scope of work requested by Husky, the contractual lump sum price agreed with Saipem should be reduced proportionally on the basis of a specific contractual provision in this sense. On the basis of this, Husky asked that Saipem be ordered to pay the related value, quantifying this claim as CAD 45,684,000.

On October 6, 2015, Husky sued Saipem in the Court of Queen's Bench of Alberta, claiming, among other things: (i) that the payments it had made to Saipem, which were in excess of the lump sum amount agreed between the parties, were justified by Saipem's alleged threats to abandon the works if such additional payments were not made (economic duress); and (ii) that even after the execution of such payments, the performances of Saipem did not improve, forcing Husky to terminate the contract and complete the works on its own. As a result, Husky asked the Canadian court to order Saipem to pay CAD 1.325 billion for alleged damages, an amount that includes, among other things: (i) payments in excess with respect to the agreed lump sum price; (ii) costs to complete the works following termination of the contract; (iii) damages for lost profits and the penalty for alleged delay in completion of the Project.

In the hearing of January 14, 2016 Saipem requested that the pending proceedings be heard jointly before the Queen's Bench Court of Alberta and that arbitration be suspended in order to include the relative claims in the proceedings to be heard jointly. On May 27, 2016 Saipem filed a short reply requesting that the Court declare invalid the arbitration proceedings commenced by Husky. The hearing held on July 4, 2016 was adjourned pending the judge's ruling. At the time of writing, the judge has not yet ruled upon the matter.

Arbitration with GLNG - Gladstone Project (Australia)

On January 4, 2011, Saipem Australia Pty Ltd ('Saipem') entered into the Engineering, Procurement and Construction Contract (the 'Contract') relating to the Gladstone LNG project (the 'Project') with GLNG Operations Pty Ltd ('GLNG') in the capacity of agent of Santos GLNG Pty Ltd, PAPL (Downstream) Pty Ltd and Total E&P Australia (jointly, 'Joint Venturers').

During the execution of the Project, Saipem accrued and presented to GLNG contractual claims initially quantified in about AUD 570,668,821 based, among other things, on time extensions, reimbursement of costs connected with delays not attributable to Saipem, variation orders and payment of contractually foreseen bonuses not paid by GLNG (the 'Contractual Claim'). However, this Contractual Claim was entirely rejected by GLNG, which, in support of its refusal, alleged, among other things, that at the time the Contract was entered into, Saipem was not in possession of a licence foreseen as necessary by the Australian sector regulations

(viz., the Queensland Building and Construction Commission Act 1991) for the execution of part of the work (i.e., the building works) under the Contract.

As a result of GLNG's last statement, Saipem: (i) replied that the fact that the Contract had been stipulated in violation of this regulation had determined its illegality, thus rendering it null and void (unenforceability) and, as a result; (ii) requested the payment of the sums owed on the basis of the so-called Quantum Meruit Claim, quantifying the economic benefit received by GLNG (net of the payments already made by the latter) in the sum of AUD 770,899,601. However, this claim was also rejected by GLNG.

A negotiation phase was thus initiated between the parties based on the related contractually agreed procedure, but this did not lead to a successful outcome either.

Therefore on October 9, 2015, Saipem served a request for arbitration against GLNG, asking that they be ordered to pay: (i) the Quantum Meruit Claim; or alternatively; (ii) a fair figure for the Contractual Claim; (iii) in addition to interest and arbitration costs.

On November 6, 2015 the defendant GLNG rejected the claims of Saipem and made the following counterclaim: (a) compensation for damages for alleged defective works, with particular reference to the coating of the whole line (this counterclaim was not specifically quantified by GLNG which, however, maintains that the defects found can only be corrected at a cost that could exceed the contract price); (b) if the Quantum Meruit Claim were to be deemed valid, the reimbursement of that part of the contractually agreed price for which Saipem is not able to demonstrate the obligation to pay on a quantum meruit basis; (c) compensation for damages (not yet quantified) deriving from the breach of general warranties; (d) application of the liquidated damages set at AUD 18 million; (e) compensation for alleged breaches of contract by Saipem set at about AUD 23 million.

On May 6, 2016 Saipem served GLNG with its own Statement of Claim with which, among other things, the sums requested were reduced (in particular, the contractual claim is currently in the region of AUD 254 million).

On October 7, 2016, GLNG served its own Statement of Defence and Counterclaim, in which it requested that Saipem's claim be rejected and it confirmed its own counterclaim consisting, among other things, of compensation for the damage deriving from the need to repair or replace the entire line, the quantification of which still appears, however, to be unclear. GLNG also requested that the issue of the Quantum Meruit Claim be handled and resolved prior to tackling that of the Contractual Claim. The relevant hearings were held in the month of February 2017. With a preliminary and partial decision, the Arbitration Panel rejected the Quantum Meruit Claim. Arbitration proceedings are continuing with regard to the other requests of Saipem and GLNG.

It is also reported that, on July 13, 2016, GLNG had served a new request for arbitration on Saipem SpA, concerning the validity of the Parent Company Guarantee issued by the latter (in its capacity as guarantor) to GLNG (in its capacity as beneficiary) when the Contract was awarded to Saipem (in its capacity as obligor). In particular, GLNG had sustained that, if the Contract were to be considered null and void and, as a result, the quantum meruit based claim were to be considered valid by the arbitration panel, any sums that GLNG might be sentenced to pay to Saipem, should be reimbursed to GLNG by Saipem SpA inasmuch as, in the Parent Company Guarantee, Saipem would have been committed to holding GLNG harmless from and against any negative consequences deriving from the possible invalidity of the Contract. Saipem responded to this arbitration procedure: (i) rejecting the position of GLNG as unfounded; and (ii) accepting GLNG's request to bring the two arbitrations together. The rejection of the Quantum Meruit Claim will nullify the arbitration on the question of the validity of the Parent Company Guarantee issued by Saipem SpA.

Arbitration 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 approximately €678 million (with the right to integrate this in the course of arbitration). On March 10, 2017, SSTBV filed its Counter-Memorial in which it requested, in addition to the rejection of Saipem's claims, compensation for:

- primarily, damages for approximately €541 million for alleged misrepresentation which led the defendant to entering into a contract with Saipem;
- additionally or alternatively, damages for: (i) approximately €138 million, for payments made by SSTBV allegedly higher than contractually due; and (ii) approximately € 48 million, for liquidated damages due to alleged delays; and
- primarily and alternatively, €10 million for alleged damages to pipes owned by the defendant.

The evidence phase of the proceedings is forthcoming.

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

With reference to the Jurassic Project and the relating EPC contract between Saipem SpA ('Saipem') and Kharafi, on July 1, 2016 Saipem filed a request for arbitration with the London Court of International Arbitration ('LCIA') with which it requested that Kharafi be sentenced:

- (1) to return KWD 25,018,228, collected by Kharafi through the enforcement of a performance bond following the termination of the contract with Saipem;

(2) to refund KWD 20,135,373 for costs deriving from the suspension of the procurement activities, particularly those connected with the purchase by Saipem of 4 turbines;

(3) to refund KWD 10,271,409 for engineering costs borne by Saipem prior to the termination of the contract by Kharafi; for a total of KWD 55,425,010 (equivalent to approximately €170,729,546).

Kharafi responded to Saipem's request for arbitration rejecting the claims therein and demanding, by way of counterclaim, that Saipem be sentenced to pay an amount not yet quantified but including, among other things:

(1) the costs allegedly sustained by Kharafi due to Saipem's alleged non-fulfilment of the contract (more than KWD 32,824,842); and

(2) the damage allegedly suffered by Kharafi following the enforcement of a guarantee in a sum equivalent to KWD 25,136,973 issued by Kharafi to the final customer of the Jurassic Project.

The Chairman of the Arbitral Tribunal was appointed. A calendar of the arbitration proceedings will follow.

Significant tax disputes

Saipem SpA

On February 5, 2015, the Tax Police Unit of Milan initiated a tax audit of Saipem, which led the Guardia di Finanza to serve Saipem with a tax audit report on April 14, 2015, followed by four notices of assessment (Ires 2008, Ires 2009, Irap 2008 and Irap 2009) issued by the Italian Revenue Agency on July, 9 2015, against which Saipem lodged an appeal before the Provincial Tax Commission in Milan, which partially upheld it, as reported in the above section 'Algeria'. Under the terms of the law, the ruling of the court of first instance will be challenged by Saipem before the Regional Tax Commission.

In the framework of the tax audit indicated in the above section, and in relation to the costs deriving from operations which took place in the course of 2010 with companies resident or located in states or territories with privileged tax regimes, identified in the Ministerial Decree January 23, 2002 (so-called 'black list costs'), on July 20, 2015, on completion of an audit, the Guardia di Finanza served Saipem with a report in which costs amounting to €235 million, and deemed non-deductible in accordance with Article 110, paragraph 10 of the Italian Consolidated Income Tax Act, were reported to the Italian Revenue Agency for the opening of a preliminary investigation. On July 30, 2015, the Italian Revenue Agency served the Company with a questionnaire related to the costs reported in the tax audit report by the Guardia di Finanza, in accordance with Article 110, paragraph 11 of the Consolidated Income Tax Act. In the 90 days following the notification, Saipem provided the Revenue Office with its reply to the questionnaire together with further documentation which, in the Company's view, provided objective proof of at least one of the two types of exemption specified in the above mentioned Act. On July 27, 2016, the Large Taxpayers Unit of the Italian Revenue Agency's Lombardy Regional Tax Office served the Company with a second questionnaire pursuant to Article 110, paragraph 11, of the Italian Consolidated Income Tax Act, the subject of which was the 'black list' costs borne by the Company in tax year 2011, amounting, as reported in the 2012 Tax Declaration, to €649 million. Also in this case, in the 90 days following the notification, the Company provided the Revenue Office with its reply to the questionnaire together with copious documentation proving the existence of the exemptions specified. On December 29, 2016, the Revenue Agency served Saipem with 4 tax assessment notices relating to Ires and Irap taxes for the years 2010 and 2011.

With regard to tax year 2010, on the basis of two assessments, a greater income in the sum of €92 million was found. In particular, the first assessment also contained the results of the tax audit report of April 14, 2015 on the subject of the costs allegedly arising from the commission of crimes in the sum of €28 million, while the purpose of the second assessment was the disallowing of tax deductibility of black list costs amounting to €64 million (compared to €235 million originally proposed by the Guardia di Finanza). Overall, with regard to tax year 2010, higher taxes in the sum of €29 million were calculated, and a fine of €5 million plus interest imposed. With regard to tax year 2011, a higher taxable amount equivalent to €135 million was calculated on the basis of two types of assessment. With the first assessment, tax deductibility of black list costs amounting to €130 million was disallowed. The second assessment, on the other hand, challenged the deductibility of certain costs, amounting to €4 million, because they were subject to taxation in violation of the accrual principle provided for by Article 109, paragraph 1 of the Italian Consolidated Income Tax Act. Overall, with regard to tax year 2011, higher taxes in the sum of €43 million were calculated, and a fine of €42 million plus interest imposed.

The Company, while firm in its position that all the tax assessment notices are unfounded and illegitimate, on February 17, 2017 filed distinct motions with the revenue office (Agenzia delle Entrate) with the primary purpose of obtaining a thorough review of the conclusions reached in the payment orders, limited to cases where deductions of costs incurred for working with blacklist providers were denied. The period provided for by law for the parties to jointly define the findings is 90 days, during which the terms for appealing the payment orders are suspended. If this period passes without the parties reaching an agreement, Saipem will file an appeal with the Commissione Tribunale Provinciale di Milano.

Pending the deadline to file the appeal, the Company is required to pay a third of the assessed taxes, pursuant to Article 15, Presidential Decree No. 602/1973, which amounts to approximately €24 million in addition to related interest, as a provisional payment, without prejudice to the possibility of suspension of the payment orders following acceptance of the relevant application to be submitted to the Commission together with the appeal.

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'.

32 Net sales from operations

Net sales from operations were as follows:

(€ million)	2015	2016
Revenues from sales and services	11,698	9,892
Change in contract work-in-progress	(191)	84
Total	11,507	9,976

Net sales by geographical area were as follows:

(€ million)	2015	2016
Italy	411	338
Rest of Europe	1,016	749
CIS	2,047	2,626
Middle East	2,218	2,104
Far East	1,015	545
North Africa	229	452
West Africa and Rest of Africa	2,833	2,208
Americas	1,738	954
Total	11,507	9,976

Information required by IAS 11 is provided by business sector in Note 43 'Segment information, geographical information and construction contracts'.

Contract revenues include the amount agreed in the initial contract, plus revenues from change orders and claims. Change orders are changes to the contracted scope of work requested by the client, while claims are requests for the reimbursement of costs not included in the contract price. Change orders and claims are included in revenues when: (a) contract negotiations with the client are at an advanced stage and approval is probable; (b) their amount can be reliably estimated.

The cumulative amount of additional payments for change orders and claims, including amounts pertaining to previous years, based on project progress at December 31, 2016, totalled €735 million, of which 66% are disputed. For projects where additional payments exceed €50 million, estimates are supported by a technical/legal opinion provided by third party consultants.

Revenues from related parties are shown in Note 44 'Transactions with related parties'.

33 Other income and revenues

Other income and revenues were as follows:

(€ million)	2015	2016
Gains (losses) on disposal of assets	4	2
Indemnities	1	2
Other income	8	30
Total	13	34

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'.

34 Purchases, services and other costs

Purchases, services and other costs included the following:

(€ million)	2015	2016
Production costs - raw, ancillary and consumable materials and goods	2,378	2,130
Production costs - services	4,705	3,934
Operating leases and other	1,326	758
Net provisions for contingencies	19	53
Other expenses	340	348
less:		
- capitalised direct costs associated with self-constructed tangible assets	(30)	(7)
- changes in inventories of raw, ancillary and consumable materials and goods	51	103
Total	8,789	7,319

Costs for services included agency fees of €1 million (€2 million at December 31, 2015).

Costs incurred in connection with research and development activities that do not meet the requirements for capitalisation amounted to €19 million (€14 million at December 31, 2015).

'Operating leases and other' included operating lease payments of €735 million (€1,303 million in 2015), mainly vessels, buildings, work vehicles and construction equipment.

Future minimum lease payments expected to be paid under non-cancellable operating leases amounted to €678 million (€623 million in 2015), of which €112 million was due within one year, €342 million between 2-5 years and €224 million due after 5 years. Net provisions for contingencies are detailed in Note 20 'Provisions for contingencies'.

The other expenses comprise net provisions for impairment losses, which are mainly due to the more prudent collection assumptions for South America.

Purchase services and other costs to related parties are shown in Note 44 'Transactions with related parties'.

35 Payroll and related costs

Payroll and related costs were as follows:

(€ million)	2015	2016
Wages and salaries	1,866	1,467
Social security contributions	257	254
Contributions to defined benefit plans	20	30
Accrual to provision for TFR recognised as a contra-entry to pension found or Inps	25	22
Other costs	65	19
less:		
- capitalised direct costs associated with self-constructed tangible assets	(11)	(10)
Total	2,222	1,782

Net accruals to provisions for employee benefits are shown under Note 21 'Provisions for employee benefits'.

Stock-based compensation plans for Saipem senior managers

With the aim of developing an incentive and loyalty scheme for the Group's senior managers, in the financial year 2016 Saipem SpA drew up a plan for the free allocation of shares (stock grants).

This 2016-2018 incentive plan, approved by the annual Shareholders' Meeting on April 29, 2016, envisages the free-of-charge allocation of Saipem ordinary shares to the Saipem senior managers and subsidiaries, holders of organisational positions with a significant impact on the achievement of business results, also in relation to the performance achieved, position covered and responsibilities held.

The cost is determined with reference to the fair value of the right awarded to the senior manager, while the portion of costs pertaining to the financial year is determined on a pro-rata temporis basis throughout the period to which the incentive refers (the so-called vesting period and co-investment period).

The fair value of the stock grants pertaining to the financial year, for an amount of €2,243 thousand, is recognised in payroll costs. The evaluation of the fair value was carried out using the Stochastic and Black & Scholes models for the application of the calculation, in compliance with the provisions laid down in international accounting principles, especially IFRS 2.

The Stochastic model was used to evaluate the awarding of equity instruments subject to market conditions, on the basis of a

comparison of the corporate performance indicator identified in the TSR (Total Shareholder Return) of the companies, compared to that of a selected basket of competitor companies, throughout the period of performance, with a weight of 50%.

The Black & Scholes model was used to evaluate the economic-financial objective defined for each cycle of the plan, with a weight of 50%. For the first cycle 2016-2018, that objective is Saipem's Net Financial Position (NFP) at the end of 2018.

For each of the above illustrated performance objectives 3 levels of results have been established.

Upon achieving the maximum result level, the number of matured shares will be 100% of the shares allocated, while on achievement of a threshold result, the number of matured shares will be 50% of the shares allocated for the TSR and 30% for the net financial position. When results fall below the threshold, shares will not be paid out.

The overall weighted average unit fair value was equal to €0.311 for the 2016 plan.

Since the plan also calls for the strategic resources to invest 25% of the matured shares at the end of the vesting period, for a further two-year period (co-investment period), after which beneficiaries will receive an additional free share for every share invested, the weighted average unit fair value was found to be equal to €0.340 for the strategic resources and equal to €0.275 for the non-strategic resources.

This co-investment obligation is not applied to the CEO, as their current mandate will expire prior to that period. For the CEO, a two-year lock-up of 25% of the matured shares is envisaged. The matured shares subject to lock-up cannot be transferred and/or ceded.

On the award date, the classification and number of the beneficiaries, the respective number of the shares awarded and the subsequent calculation of the fair value, were as follows:

	No. of managers	No. of shares	Share portion (%)	Unit fair value TSR (weight 50%)	Unit fair value NFP (weight 50%)	Weighted average unit fair value	Total fair value	Fair value 2016
Strategic senior managers (vesting period)	99	34,078,113	75	0.12	0.43	0.340	11,586,558	1,356,025
Strategic senior managers (co-investment period)			25	0.22	0.85			
Non strategic senior managers	272	23,303,500	100	0.12	0.43	0.275	6,408,463	890,065
CEO	1	3,653,489	100	0.12	0.43	0.275	1,004,709	139,543
Total	372	61,035,102				0.311	18,999,730	2,385,633

The rights existing as of December 31, 2016 comprise:

	Number of shares	Average price over year ^(a) (€ thousand)	Market value ^(b) (€ thousand)
Options as of January 1, 2016	-	-	-
New options granted	61,035,102	-	26,001
(Options exercised during the period)	-	-	-
(Options expiring during the period)	(83,000)	-	(45)
Options outstanding as of December 31, 2016	60,952,102		32,914
Of which:			
- exercisable as of December 31, 2016	-		
- exercisable at the end of the vesting period	52,432,574		
- exercisable at the end of the co-investment period	8,519,528		

(a) Since the shares are free of charge, the price over year is zero.

(b) The market value of shares underlying stock grants allocated or expired during the year corresponds to the average market value of the shares. The market price of shares underlying stock grants outstanding at the beginning and end of the year is the price recorded at January 1 and December 31.

For the stock grant plans for the benefit of Saipem SpA employees, the cost is recognised in the item 'Payroll and related costs' as a contra entry to the item 'Other reserves' of the shareholders' equity.

For plans for the benefit of the employees of the subsidiaries, the fair value of the stock grants is recognised as of the date of the award under the item 'Payroll and related costs' as a contra entry to the item 'Other reserves' of the shareholders' equity; in the same financial year the corresponding amount is charged to the companies to which the employees belong, as a contra entry to the item 'Payroll and related costs'

In the case of Saipem SpA personnel working in other companies belonging to the Group, the cost is charged on a pro-rata temporis basis to the company in which the beneficiaries are working.

The parameters used for the calculation of the fair value are as follows:

Share price ^(a)	(€)	0.426
Price over year ^(b)	(€)	
Price over year adopted in the Black & Scholes model	(€)	0.426
Expected life		
Vesting period	(years)	3
Co-investment	(years)	2
Risk-free interest rate		
TSR	(%)	-
- vesting period	(%)	0.023
- co-investment	(%)	0.320
Black & Scholes	(%)	n.a.
Expected dividends	(%)	-
Expected volatility		
TSR	(%)	-
- vesting period	(%)	59.13
- co-investment	(%)	55.70
Black & Scholes	(%)	n.a.

(a) Corresponding to the closing price of Saipem SpA shares recorded in the Electronic Stock Market (Mercato Telematico Azionario, MTA) managed by Borsa Italiana, the day before the award date.

(b) Since the shares are free of charge, the price over year is zero.

Compensation of key management personnel

To ensure consistency between disclosures provided in the Remuneration Report and the Annual Report, the definition of key management personnel has been aligned with the definition of Senior Managers with strategic responsibilities pursuant to Article 65, paragraph 1-*quater* of the Issuers' 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 managers directly reporting to the CEO.

(€ million)	2015	2016
Wages and salaries	5	4
Employee termination indemnities	-	-
Other long-term benefits	1	1
Stock options	-	-
Total	6	5

Compensation of Statutory Auditors

Remuneration of Statutory Auditors amounted to €170 thousand in 2016.

Compensation includes emoluments and any other financial rewards or pension/medical benefits due for the function of Statutory Auditor of Saipem SpA or of companies within the scope of consolidation that represented a cost to the lead company.

Average number of employees

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

(number)	Dec. 31, 2015	Dec. 31, 2016
Senior managers	408	401
Junior managers	4,836	4,162
White collars	21,344	17,950
Blue collars	18,915	16,694
Seamen	325	296
Total	45,828	39,503

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.

36 Depreciation, amortisation and impairment

Depreciation, amortisation and impairment amounted to €2,408 million (€960 million in 2015) and are detailed below:

(€ million)	2015	2016
Depreciation and amortisation:		
- tangible assets	730	672
- intangible assets	11	12
Total depreciation and amortisation	741	684
Impairment:		
- tangible assets	219	1,721
- intangible assets	-	3
Total impairment	219	1,724
Total	960	2,408

The impairment of assets deriving from the strategic plan and consequent impairment test are described as follows:

- as regards Offshore Drilling, some vessels, mainly semi-submersible platforms, were partially written down following the impairment test; additionally, two jack-ups and a semi-submersible platform were completely written down since their use was not envisaged within the period covered by the plan. Impact amounting to €1,170 million;
- as regards Onshore Drilling, some drilling rigs were completely or partially written down since the possibility of them being used within the period covered by the plan was calculated to be zero or limited. Impact amounting to €155 million;
- as regards Offshore E&C, one vessel was completely written down since its use was not envisaged within the period covered by the plan, an FPSO was partially written down following the impairment test, and the useful life of another FPSO was reviewed and made to coincide with the end of the contract in force, due to the improbability of renewal. Additionally, some fabrication yards with low prospects of use within the period of the plan were partially written down. Impact amounting to €341 million;
- as regards Onshore E&C, a fabrication yard was totally written down since there were no prospects of it being used within the period covered by the plan, and a logistic base was partially written down. Impact amounting to €58 million.

For further details, see also the 'Financial and economic results' section of the 'Directors' Report'.

37 Other operating income (expense)

The income statement effects of the change in fair value of derivatives that do not meet the formal requirements to qualify as hedging instruments under IFRS are recognised in 'Other operating income and expenses'. At December 31, 2016, there were no other operating income (expense) (expenses of €1 million at December 31, 2015).

38 Finance income (expense)

Finance income (expense) was as follows:

(€ million)	2015	2016
Finance income (expense)		
Finance income	1,053	867
Financial expenses	(1,206)	(868)
Total	(153)	(1)
Derivative financial instruments	(91)	(153)
Total	(244)	(154)

Net finance income and expense was as follows:

(€ million)	2015	2016
Exchange gains (losses)	45	100
Exchange gains	1,042	855
Exchange losses	(997)	(755)
Finance income (expense) related to net borrowings	(195)	(92)
Interest and other income from Group financial companies	-	-
Interest from banks and other financial institutions	8	10
Interest and other expense due to Group financial companies	(171)	-
Interest and other expense due to banks and other financial institutions	(32)	(102)
Other finance income (expense)	(3)	(9)
Other finance income from third parties	3	2
Other finance expense due to third parties	(1)	(7)
Finance income (expense) on defined benefit plans	(5)	(4)
Total finance income (expense)	(153)	(1)

Gains (losses) on derivatives consisted of the following:

(€ million)	2015	2016
Exchange rate derivatives	(91)	(152)
Interest rate derivatives	-	(1)
Total	(91)	(153)

Net expenses from derivatives of €153 million (expenses of €91 million in 2015) mainly related to the recognition in income of the change in fair value of derivatives that do not qualify for hedge accounting under IFRS and the recognition of the forward component of derivatives that qualify for hedge accounting.

39 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)	2015	2016
Share of profit of investments accounted for using the equity method	18	26
Share of loss of investments accounted for using the equity method	(9)	(7)
Net additions to (deductions from) the provisions for losses related to investments accounted for using the equity method	7	(1)
Total	16	18

The share of profit (losses) of investments accounted for using the equity method is commented on in Note 10 'Investments'.

Other income (expense) from investments

During the year, there was no other income (expense) from investments (€18 million in 2015).

40 Income taxes

(€ million)	2015	2016
Current taxes:		
- Italian subsidiaries	10	26
- foreign subsidiaries	330	264
Net deferred taxes:		
- Italian subsidiaries	(161)	(43)
- foreign subsidiaries	(52)	198
Total	127	445

Current taxes amounted to €290 million and related to Italian regional production tax (Irap) charges of €3 million.

The difference between statutory taxes, calculated by applying a 27.5% tax rate (Ires) to profit before income taxes and effective taxes for the years ended December 31, 2015 and 2016 were due to the following factors:

(€ million)	2015	2016
Profit (loss) before income taxes	(662)	(1,635)
Statutory tax rate	(182)	(450)
Items increasing (decreasing) statutory tax rate:		
- different foreign subsidiaries tax rate	(134)	(43)
- permanent differences and other factors	174	719
- effect of Italian regional production tax (Irap) on Italian companies	2	-
- additions to (deductions from) tax provision	(3)	(9)
- unrecognised deferred tax assets	270	96
- write-off of deferred tax assets and current tax assets	-	232
Total changes	309	895
Effective tax rate	127	445

(€ million)	2015	2016
Income taxes recognised in consolidated income statement	127	445
Income tax related to items of other comprehensive income that may be reclassified to profit or loss	8	(37)
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	(2)	(1)
Tax on total comprehensive income	133	407

41 Non-controlling interests

Profit attributable to non-controlling interests amounted to €7 million (€17 million profit in 2015).

42 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 number of shares outstanding adjusted for the calculation of the basic earnings (losses) per share was 8,348,792,230 and 439,361,742 in 2016 and 2015, respectively.

Diluted earnings (losses) per share are calculated by dividing net profit (loss) for the year attributable to Saipem's shareholders by the weighted average of fully-diluted shares issued and outstanding during the year, with the exception of treasury shares and including the number of shares that could potentially be issued. At December 31, 2016, shares that could potentially be issued only regarded shares granted under stock grant plans. The average number of shares outstanding used for the calculation of diluted earnings (losses) for 2015 and 2016 was 439,471,068 and 8,409,742,458, respectively. Reconciliation of the average number of shares used for the calculation of basic and diluted earnings (losses) per share is as follows:

	Dec. 31, 2015	Dec. 31, 2016
Average number of shares used for the calculation of the basic earnings (losses) per share	439,361,742	8,348,792,230
Number of potential shares following stock grant plans	-	60,844,102
Number of savings shares convertible into ordinary shares	109,326	106,126
Weighted average number of outstanding shares for diluted earnings (losses) per share	439,471,068	8,409,742,458
Earnings (loss) per share attributable to Saipem	(€ million) (806)	(2,080)
Basic earnings (loss) per share	(€ per share) (1.83)	(0.25)
Diluted earnings (loss) per share	(€ per share) (1.83)	(0.25)

43 Segment information, geographical information and construction contracts

Segment information

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Not allocated	Total
December 31, 2015						
Net sales from operations	9,277	3,288	1,488	959	-	15,012
less: intra-group sales	2,387	500	421	197	-	3,505
Net sales to customers	6,890	2,788	1,067	762	-	11,507
Operating result	54	(742)	284	(48)	-	(452)
Depreciation, amortisation and impairment	435	88	252	185	-	960
Net income from investments	1	32	-	1	-	34
Capital expenditure	168	36	247	110	-	561
Tangible and intangible assets	3,392	536	3,050	1,067	-	8,045
Investments ^(a)	111	17	-	6	-	134
Current assets	2,414	2,291	554	534	1,771	7,564
Current liabilities	2,907	2,049	283	149	4,070	9,458
Provisions for contingencies ^(a)	52	122	2	3	58	237
December 31, 2016						
Net sales from operations	7,817	3,184	1,307	661	-	12,969
less: intra-group sales	2,131	340	404	118	-	2,993
Net sales to customers	5,686	2,844	903	543	-	9,976
Operating result	(8)	(142)	(968)	(381)	-	(1,499)
Depreciation, amortisation and impairment	591	94	1,390	333	-	2,408
Net income from investments	21	(3)	-	-	-	18
Capital expenditure	117	8	94	77	-	296
Tangible and intangible assets	2,924	444	1,754	825	-	5,947
Investments ^(a)	130	10	-	7	-	147
Current assets	2,368	2,345	375	312	2,386	7,786
Current liabilities	2,765	1,984	191	164	567	5,671
Provisions for contingencies ^(a)	97	123	2	2	42	266

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

Geographical information

Since Saipem's business involves the deployment of a fleet on a number of different projects over a single year, it is difficult to allocate assets to a specific geographic area. As a result, certain assets have been deemed not directly attributable.

The unallocated part of tangible and intangible assets and capital expenditure related to vessels and their related equipment and goodwill.

The unallocated part of current assets pertained to inventories related to vessels.

A breakdown of revenues by geographical area is provided in Note 32 'Net sales from operations'.

(€ million)	Italy	Rest of Europe	CIS	Rest of Asia	North Africa	West Africa	Americas	Unallocated	Total
2015									
Capital expenditure	17	6	26	92	-	2	52	366	561
Tangible and intangible assets	108	24	290	954	1	140	740	5,788	8,045
Identifiable assets (current)	261	991	876	1,604	242	1,180	1,320	1,090	7,564
2016									
Capital expenditure	14	3	9	64	-	1	16	189	296
Tangible and intangible assets	83	25	139	753	-	72	450	4,425	5,947
Identifiable assets (current)	881	648	1,341	1,972	475	901	900	668	7,786

Current assets were allocated by geographical area using the following criteria: (i) cash and cash equivalents and financing receivables were allocated on the basis of the country in which individual company bank accounts were held; (ii) inventory was allocated on the basis of the country in which onshore storage facilities were situated (i.e. excluding inventory in storage facilities situated on vessels); (iii) trade receivables and other assets were allocated to the geographical area to which the related project belonged.

Non-current assets were allocated on the basis of the country in which the asset operates, except for offshore drilling and construction vessels, which were included under 'Unallocated'.

Construction contracts

Construction contracts were accounted for in accordance with IAS 11.

(€ million)	2015	2016
Construction contracts - assets	1,789	1,848
Construction contracts - liabilities	(1,641)	(1,109)
Construction contracts - net	148	739
Costs and margins (completion percentage)	12,058	10,229
Progress billings	(11,886)	(9,422)
Change in provision for future losses	(24)	(68)
Construction contracts - net	148	739

44 Transactions with related parties

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

- on February 10, 2016, Saipem SpA and SACE Fct SpA signed two non-recourse assignment contracts relating respectively to two invoices issued to the client Pemex Transformación Industrial for an aggregate sum of approximately USD 237 million; the contracts became effective on February 23, 2016, on receipt of formal authorisation from the client for the transaction. Full payment was made to Saipem SpA by SACE Fct SpA. The above-mentioned factoring contracts were entered into in order to facilitate the ordinary financial activities of Saipem SpA and its direct subsidiaries;
- the relationship with Vodafone Omnitel BV, related to Eni SpA through a member of the Board of Directors pursuant to the Consob Regulation concerning transactions with related parties of March 12, 2010 and Saipem internal procedure 'Transactions involving interests of Directors and statutory auditors and transactions with related parties'. These ratios, adjusted to market conditions, mainly refer to costs for mobile communications services for €2 million and trade payables of €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 transactions as at December 31, 2015 were as follows:

(€ million)

Name	Dec. 31, 2015			2015			
	Trade and other receivables	Trade and other payables	Guarantees	Expenses		Revenues	
				Goods	Services ⁽¹⁾	Goods and services	Other
Unconsolidated subsidiaries							
SAGIO - Companhia Angolana de Gestão de Instalação Offshore Lda	-	1	-	-	2	-	-
Total unconsolidated subsidiaries	-	1	-	-	2	-	-
Joint ventures and associates							
ASG Scarl	-	9	-	-	3	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	60	99	218	-	101	145	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	7	3	122	-	3	1	-
Charville - Consultores e Servicos, Lda	1	-	-	-	-	1	-
Consorzio F.S.B.	-	-	-	-	1	-	-
CSFLNG Netherlands BV	1	6	-	-	-	26	-
Gruppo Rosetti Marino SpA	-	4	-	10	-	-	-
KWANDA Suporte Logistico Lda	69	10	-	-	5	8	-
Petromar Lda	97	16	18	-	16	45	-
Saipar Drilling Co BV	-	-	-	-	-	1	-
Saipem Dangote E&C Ltd	-	1	-	-	-	-	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	4	5	-	-	50	(8)	-
Société pour la Réalisation du Port de Tanger Méditerranée	1	-	-	-	-	-	-
Southern Gas Constructors Ltd	1	-	-	-	-	-	-
TSGI Mühendislik İnşaat Ltd Şirketi	2	-	-	-	-	1	-
Xodus Subsea Ltd	2	1	-	-	1	-	-
Others (for transactions not exceeding €500 thousand)	1	1	-	-	-	1	-
Joint ventures and associates	246	155	358	10	180	221	-
Eni consolidated subsidiaries							
Eni SpA	7	12	3,071	-	17	4	-
Eni SpA Downstream Gas Division	-	-	-	-	1	-	-
Eni SpA Exploration & Production Division	65	3	-	-	(2)	90	-
Eni SpA Gas & Power Division	1	1	-	-	1	-	-
Eni SpA Refining & Marketing Division	22	2	-	6	-	28	-
Agip Karachaganak BV	-	-	-	-	-	1	-
Agip Oil Ecuador BV	-	1	-	-	-	3	-
Banque Eni SA	-	-	-	-	2	-	-
Eni Adfin SpA	-	-	-	-	4	-	-
Eni Angola SpA	53	-	-	-	-	211	-
Eni Canada Holding Ltd	-	-	-	-	-	75	-
Eni Congo SA	83	5	-	-	-	297	-
Eni Corporate University SpA	-	1	-	-	4	-	-
Eni Cyprus Ltd	23	-	-	-	-	68	-
Eni Insurance Ltd	-	6	-	-	6	-	-
Eni Lasmo PLC	26	-	-	-	-	25	-
Eni Mediterranea Idrocarburi SpA	-	-	-	-	-	1	-
Eni Muara Bakau BV	56	17	-	-	-	254	-
Eni Norge AS	50	-	-	-	-	166	-
Eni North Africa BV	1	-	-	-	-	1	-
EniPower SpA	-	-	-	-	-	1	-
EniServizi SpA	-	8	-	-	53	1	-
Eni Trading & Shipping SpA	-	-	-	-	6	-	-
Eni Turkmenistan Ltd	4	-	-	-	-	8	-
Floaters SpA	-	-	-	-	-	2	-
Hindustan Oil Exploration Co Ltd	1	-	-	-	-	-	-
Naoc - Nigerian Agip Oil Co Ltd	4	-	-	-	-	-	-

Trade transactions as at December 31, 2015 (continued)

(€ million)

Name	Dec. 31, 2015			2015			
	Trade and other receivables	Trade and other payables	Guarantees	Expenses		Revenues	
				Goods	Services ⁽¹⁾	Goods and services	Other
Raffineria di Gela SpA	1	-	-	-	-	4	-
Serfactoring SpA	4	17	-	-	2	-	-
Syndial SpA	1	1	-	-	1	4	-
Tecnomare SpA	-	-	-	-	-	1	-
Versalis France SAS	-	-	-	-	-	1	-
Versalis SpA	30	-	-	-	-	58	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	-	2	-
Total Eni consolidated subsidiaries	433	74	3,071	6	95	1,306	-
Eni associated and jointly controlled companies							
Blue Stream Pipeline Co BV	-	-	-	-	-	1	-
Eni East Africa SpA	1	-	-	-	-	42	-
Greenstream BV	1	-	-	-	-	2	-
Mellitah Oil & Gas BV	9	-	-	-	7	-	-
Petrobel Belayim Petroleum Co	19	-	-	-	-	86	-
Raffineria di Milazzo	3	-	-	-	-	5	-
Others (for transactions not exceeding €500 thousand)	2	-	-	-	-	-	-
Total Eni associates and jointly-controlled companies	35	-	-	-	7	136	-
Total Eni companies	468	74	3,071	6	102	1,442	-
Companies controlled or owned by the State	25	51	-	-	4	36	-
Pension funds: FOPDIRE	-	-	-	-	1	-	-
Total transactions with related parties	739	281	3,429	16	289	1,699	-
Overall total	3,348	5,186	7,038	2,378	6,371	11,507	13
Incidence (%)	22.22 ⁽²⁾	5.42	48.72	0.67	4.52 ⁽³⁾	14.76	-

(1) The item 'Services' includes costs for services, costs for the use of third-party assets and other costs.

(2) Incidence includes receivables shown in the table 'Financial transactions'.

(3) Incidence is calculated net of pension funds.

Trade transactions as at December 31, 2016 were as follows:

(€ million)

Name	Dec. 31, 2016			2016			
	Trade and other receivables	Trade and other payables	Guarantees	Expenses		Revenues	
				Goods	Services ⁽¹⁾	Goods and services	Other
Unconsolidated subsidiaries							
SAGIO - Companhia Angolana de Gestão de Instalação Offshore Lda	-	1	-	-	1	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
Total unconsolidated subsidiaries	-	1	-	-	1	-	-
Joint ventures and associates							
ASG Scarl	-	5	-	-	(1)	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	44	83	131	-	75	98	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	6	6	121	-	2	-	-
Charville - Consultores e Servicos, Lda	1	-	-	-	-	1	-
Consorzio F.S.B.	-	-	-	-	1	-	-
CSFLNG Netherlands BV	-	-	-	-	-	6	-
Gruppo Rosetti Marino SpA	-	1	-	1	-	-	-

Trade transactions as at December 31, 2016 (continued)

(€ million)

Name	Dec. 31, 2016			2016			
	Trade and other receivables	Trade and other payables	Guarantees	Expenses		Revenues	
				Goods	Services ⁽¹⁾	Goods and services	Other
KWANDA Suporte Logistico Lda	64	10	-	-	3	7	-
Petromar Lda	93	16	4	-	-	22	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	6	8	-	-	38	-	-
Southern Gas Constructors Ltd	1	-	-	-	-	-	-
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	1	-	-	-	-	-	-
TMBY SAS	4	-	-	-	-	1	-
TSGI Mühendislik İnşaat Ltd Şirketi	8	-	-	-	(1)	7	-
Xodus Subsea Ltd	3	2	-	-	2	-	-
Others (for transactions not exceeding €500 thousand)	-	1	-	-	-	-	-
Total joint ventures and associates	231	132	256	1	119	142	-
Companies controlled by Eni/CDP Equity SpA							
Eni SpA	52	3	2,081	-	8	52	-
Eni SpA Exploration & Production Division	9	-	2	(1)	-	24	-
Eni SpA Gas & Power Division	1	1	-	-	1	-	-
Eni SpA Refining & Marketing Division	2	-	11	4	-	4	-
Agip Kazakhstan North Caspian	-	-	20	-	-	3	-
Agip Oil Ecuador BV	2	-	1	-	-	4	-
Banque Eni SA	-	-	-	-	1	-	-
Eni Adfin SpA	-	2	-	-	4	-	-
Eni Angola SpA	57	-	57	-	-	250	-
Eni Congo SA	23	3	6	-	-	188	-
Eni Corporate University SpA	-	1	-	-	2	-	-
Eni East Sepinggan Ltd	25	-	1	-	-	23	-
Eni Insurance Ltd	7	8	-	-	(3)	-	-
Eni Lasmo PLC	10	3	-	-	-	3	-
Eni Mediterranea Idrocarburi SpA	-	-	-	-	-	1	-
Eni Muara Bakau BV	21	10	66	1	-	232	-
Eni Norge AS	15	-	-	-	-	130	-
EniServizi SpA	-	5	-	-	42	-	-
Eni Turkmenistan Ltd	2	-	-	-	-	(1)	-
First Calgary Petroleum Lp	-	-	100	-	-	-	-
Ieoc Exploration BV	-	-	1	-	-	-	-
Ieoc Production BV	2	-	-	-	-	42	-
Serfactoring SpA	-	1	-	-	-	-	-
Syndial SpA	-	-	3	-	-	-	-
Tecnomare SpA	-	-	-	-	1	4	-
Versalis France SAS	-	-	-	-	-	1	-
Versalis SpA	34	-	43	-	-	53	-
Others (for transactions not exceeding €500 thousand)	2	-	-	-	1	3	-
Total companies controlled by Eni/CDP Equity SpA	264	37	2,392	4	57	1,016	-

Trade transactions as at December 31, 2016 (continued)

(€ million)

Name	Dec. 31, 2016			2016			
	Trade and other receivables	Trade and other payables	Guarantees	Expenses		Revenues	
				Goods	Services ⁽¹⁾	Goods and services	Other
Total companies controlled by Eni/CDP Equity SpA	264	37	2,392	4	57	1,016	-
Eni/CDP Equity SpA associated and jointly-controlled companies							
Blue Stream Pipeline Co BV	-	-	-	-	-	1	-
Eni East Africa SpA	1	-	-	-	-	-	-
Greenstream BV	3	-	-	-	-	3	-
InAgip doo	-	-	1	-	-	-	-
Mellitah Oil&Gas BV	1	-	30	-	-	-	-
Petrobel Belayim Petroleum Co	130	158	-	-	-	248	-
PetroJunin SA	-	-	2	-	-	-	-
Pharaonic Petroleum Co	-	-	6	-	-	-	-
Valvitalia SpA	-	-	-	1	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
Total Eni/CDP Equity SpA associated and jointly-controlled companies	135	158	39	1	-	252	-
Total companies owned by Eni/CDP Equity SpA	399	195	2,431	5	57	1,268	-
Companies controlled or owned by the State	30	48	84	-	-	41	-
Total transactions with related parties	660	376	2,771	6	177	1,451	-
Overall total	3,020	4,860	7,110	2,130	5,040	9,976	34
Incidence (%)	21.95 ⁽²⁾	7.74	38.97	0.28	3.51	14.55	-

(1) The item "Services" includes costs for services, costs for the use of third-party assets and other costs.

(2) Incidence includes receivables shown in the table "Financial transactions".

The figures shown in the tables refer to Note 3 'Trade and other receivables', Note 15 'Trade and other payables', Note 31 'Guarantees, commitments and risks', Note 32 'Net sales from operations', Note 33 'Other income and revenues' and Note 34 'Purchases, services and other costs'.

The Saipem Group provides services to Eni Group companies in all sectors in which it operates, both in Italy and abroad. Existing relations with entities controlled or owned by the State are mainly in relation to the Snam Group.

Other transactions consisted of the following:

(€ million)	Dec. 31, 2015		Dec. 31, 2016	
	Other assets	Other current liabilities	Other assets	Other current liabilities
Eni SpA	87	152	-	8
Banque Eni SA	1	3	-	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	3	-	2	-
Total transactions with related parties	91	155	2	8
Overall total	323	244	246	247
Incidence (%)	28.17	63.52	0.81	3.24

Financial transactions

Financial transactions for 2015 consisted of the following:

(€ million)

Name	Dec. 31, 2015				2015		
	Cash and cash equivalents	Receivables ⁽¹⁾	Payables ⁽²⁾	Commitments	Expenses	Income	Derivative financial instruments
Eni SpA	24	-	2,491	11,428	(89)	-	(93)
Banque Eni SA	27	-	-	183	-	-	8
Eni Finance International SA	126	-	3,473	-	(79)	-	-
Eni Finance USA Inc	-	-	25	-	-	-	-
Eni Trading & Shipping SpA	-	-	-	-	(1)	-	-
Serfactoring SpA	-	-	6	-	(3)	-	-
TMBYS SAS	-	5	-	-	-	-	-
Total transactions with related parties	177	5	5,995	11,611	(172)	-	(85)

(1) Shown on the balance sheet under 'Trade and other receivables' (€5 million).

(2) Shown on the balance sheet under 'Short-term debt' (€2,781 million); 'Long-term debt' (€2,571 million) and 'Current portion of long-term debt' (€643 million).

Financial transactions for 2016 consisted of the following:

(€ million)

Name	Dec. 31, 2016				2016		
	Cash and cash equivalents	Receivables ⁽¹⁾	Payables ⁽²⁾	Commitments	Expenses	Income	Derivative financial instruments
Eni SpA	-	-	-	-	(21)	13	(301)
Banque Eni SA	-	-	-	-	(41)	43	(10)
Eni Angola SpA	-	-	-	-	(3)	2	-
Eni Finance International SA	-	-	-	-	(43)	30	-
Eni Muara Bakau BV	-	-	-	-	(2)	2	-
Eni Norge AS	-	-	-	-	-	1	-
Petrobrel Belayim Petroleum Co	-	-	-	-	-	2	-
Petromar Lda	-	-	-	-	-	1	-
Serfactoring SpA	-	3	-	-	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	(1)	-	-
Total transactions with related parties	-	3	-	-	(111)	94	(311)

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

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

(€ million)	Dec. 31, 2015			Dec. 31, 2016		
	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Short-term debt	3,016	2,781	92.21	152	-	-
Long-term debt (including current portion)	3,497	3,214	91.91	3,248	-	-
Total	6,513	5,995		3,400	-	

(€ million)	2015			2016		
	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Finance income	1,053	-	-	867	94	10.84
Financial expenses	(1,206)	(171)	14.18	(868)	(111)	12.79
Derivative financial instruments	(91)	(85)	93.41	(153)	(311)	203.27
Other operating income (expense)	(1)	(1)	100.00	-	-	-
Total	(245)	(257)		(154)	(328)	

The main cash flows with related parties were as follows:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Revenues and other income	1,699	1,451
Costs and other expenses	(305)	(183)
Finance income (expenses) and derivatives	(257)	(328)
Change in trade receivables and payables	7	174
Net cash provided by operating activities	1,144	1,114
Change in financial receivables	16	2
Sale of business units ⁽¹⁾	46	-
Net cash flow from investments	62	2
Change in financial payables	464	(5,995)
Net cash from financing activities	464	(5,995)
Total cash flows with related parties	1,670	(4,879)

(1) Further details can be found in note 30 'Additional information'.

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

(€ million)	Dec. 31, 2015			Dec. 31, 2016		
	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Cash provided by operating activities	(507)	1,144	(225.64)	978	1,114	113.91
Cash used in investing activities	(395)	62	(15.70)	(279)	2	(0.72)
Cash flow from financing activities ^(*)	370	464	125.41	(3,253)	(5,995)	184.29

(*) Net cash flow from (used in) financing activities does not include dividends distributed, net purchase of treasury shares or capital contributions by non-controlling interests.

Information on jointly controlled entities

The table below contains information regarding jointly-controlled entities consolidated using the working interest method as at December 31, 2016:

(€ million)	Dec. 31, 2015	Dec. 31, 2016
Net capital employed	(42)	(53)
Total assets	80	63
Total current assets	80	63
Total non-current assets	-	-
Total liabilities	76	63
Total current liabilities	76	63
Total non-current liabilities	-	-
Total revenues	21	13
Total operating expenses	(22)	(13)
Operating profit (loss)	(1)	-
Net profit (loss) for the year	1	-

45 Significant non-recurring events and operations

No significant non-recurring events or operations took place in 2015 or 2016.

46 Transactions deriving from atypical or unusual transactions

In 2015 and 2016, no transactions deriving from atypical and/or unusual transactions were reported.

47 Events subsequent to year-end

Information on subsequent events is provided in the section 'Events subsequent to period end' of the 'Directors' Report'.

48 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 executed in Algeria as at December 31, 2016:

- funds in two current accounts (ref. Note 1) amounting to the equivalent of €83 million are currently temporarily frozen;
- trade receivables (ref. Note 3) totalled €44 million, all past due and not impaired;
- work-in-progress (ref. Note 4) on projects executed amounted to €59 million;
- deferred income (ref. Note 15) amounted to €33 million;
- provisions for losses on long term contracts (ref. Note 20) for projects executed amounted to €2 million;
- other risks and charged (ref. Note 20) amounted to €16 million, mainly for litigation;
- guarantees (ref. Note 31) on projects executed totalled €634 million.

49 Additional information: Consob's investigations

On November 7, 2016, Consob – pursuant to Article 115, paragraph 1, lett. c) of Legislative Decree No. 58 of February 24, 1998 – initiated an administrative audit of Saipem SpA 'in order to acquire documentation and any other useful elements with regard to:

- the methods for identifying and calculating the impairments described in the communication sent to the public on October 25, 2016, also in relation to the preparation process of Strategic Plan 2017-2020;
- the possible existence of the circumstances which led to the aforementioned impairments in a period prior to the abovementioned communication'.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE NO. 58/1998 'TESTO UNICO DELLA FINANZA' (CONSOLIDATED TAX LAW)

1. The undersigned Stefano Cao and Mariano Avanzi in their capacity as CEO and manager responsible for the preparation of financial reports of Saipem SpA, respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No. 58 of February 24, 1998, certify that the internal controls of the administrative and accounting procedures for the drawing up of the year's financial statements during the 2016 financial year were:

- adequate to the company structure, and
- effectively applied during the process of preparation of the report.

2. Internal controls over financial reporting in place for the preparation of the consolidated financial statements at December, 31 2016 have been defined and the evaluation of their effectiveness has been assessed based on principles and methodologies adopted by Eni 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 these 2016 consolidated financial statements:

- 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 16, 2017

/signed/ Stefano Cao
Stefano Cao
CEO

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

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N. 39, DATED 27 JANUARY 2010 (Translation from the original Italian text)

To the Shareholders of
Saipem S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Saipem Group, which comprise the balance sheet as at December 31, 2016, the income statement and the statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of Saipem S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Saipem Group as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

Opinion on the consistency of the Directors' Report on Operations and of specific information of the Corporate Governance and Shareholding Structure Report with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Directors' Report and of specific information of 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. 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 in accordance with the applicable laws and regulations. In our opinion the Directors' Report and of the Corporate Governance and Shareholding Structure Report are consistent with the consolidated financial statements of Saipem Group as at December 31, 2016.

Milan, April 3, 2017

EY S.p.A.
Signed by: Pietro Carena, partner

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

SUSTAINABILITY STATEMENTS 2016

SUSTAINABILITY STATEMENTS

2016

'Sustainability Statements 2016' shows the Company's most significant results for the year, with indicators and trend analyses. The document is prepared in accordance with the principles of the 'Sustainability Reporting Guidelines' of the Global Reporting Initiative (GRI) - G4 version.

'Sustainability Statements 2016' is a supplement to 'Saipem Sustainability 2016', as it provides a more detailed performance analysis, both from a qualitative and quantitative point of view. The document is organised by sections, as seen in the contents. The disclosure on the Sustainability Approach (Disclosure on Management Approach) and the GRI and UN Global Compact Content Index are provided in Annexes I and II respectively of 'Saipem Sustainability 2016'. Both documents are also available online in the documents section of the website.




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METHODOLOGY, CRITERIA AND REPORTING PRINCIPLES

Since 2011, indicators and, more generally the Group's sustainability performance, have been shown in the Annual Report. This document is complementary to 'Saipem Sustainability'. The documents deal with subjects material to Saipem and the stakeholders to whom they are addressed and describe the actions and initiatives carried out to reach the targets.

This document and 'Saipem Sustainability' are an integral part of Saipem's sustainability communication and reporting system consisting of a series of tools designed to convey information on sustainability performance to all stakeholders in an exhaustive and efficient way. All these documents are available on the website www.saipem.com.

COMMUNICATION TOOLS	FINANCIAL STAKEHOLDERS	CLIENTS	EMPLOYEES	LOCAL STAKEHOLDERS
Saipem Sustainability				
Sustainability Statements				
Country Reports				
Annual Report				
Report on Corporate Governance and shareholding structure and Remuneration				
Annual leaflets and newsletters				
Saipem website				

Reporting principles

This document has been prepared with reference to the principles of balance, comparability, accuracy, timeliness, reliability

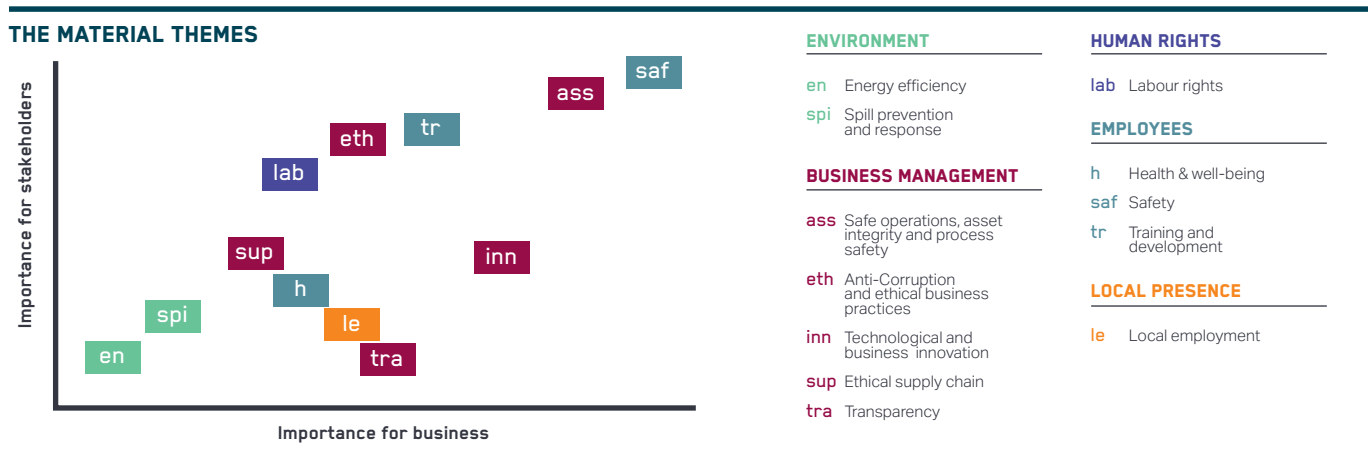
and clarity (principles for determining the quality of the report), as defined by the Global Reporting Initiative - GRI in 'G4 Sustainability Reporting Guidelines'. The contents of the

document has been defined with regard to the principles of materiality, stakeholder inclusiveness, sustainability context and completeness, as also defined by the GRI guidelines. The performance indicators, chosen on the basis of themes identified as material, have been collected on an annual basis. The sustainability reporting frequency is also annual. 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 over a three-year period, in order to enable a correct reading of the information and a full overview for all the stakeholders interested in the evolution of Saipem's performance.

Definition of the content

In 2016, a materiality analysis was carried out for the sixth year running to define the sustainability themes considered most significant, both within the Company and for stakeholders. First of all, significant themes were identified and those considered material were then selected. This process is based on the sustainability context and the analysis of the stakeholders involved. For ease of analysis and comparability of the results, the 30 themes identified were broken down into 5 macro categories. The level

of external interest was defined, through interviews or questionnaires, from a balanced sample of stakeholders. Clients, NGOs, representatives of local communities, business partners, business associations, investors, representatives of the authorities, vendors and employees were all involved. The level of internal significance was assessed by a panel of Saipem senior managers. The panel identified the most important issues, in terms of risks and opportunities, for the long-term success of the Company. The importance of each theme is determined by the nexus of internal and external significance. The material themes are those considered relevant to both Saipem and its stakeholders. The final results of the materiality analysis were validated by the Sustainability Committee and the Corporate Governance Committee and Scenarios. The upper right quadrant of the materiality matrix, represented below, shows the material topics. This document illustrates the indicators associated with material themes and those associated with themes that were also considered important, so as to ensure consistency with previous years. More details are available in the 'Methodology and Reporting Criteria' section of 'Saipem Sustainability 2016'.



Reporting boundary

This document contains information and a description of the performance indicators of Saipem SpA and all of the Group's direct or indirect subsidiaries. In line with the GRI G4 guidelines, the material themes are associated with corresponding GRI G4 aspects. In addition, the boundary within which these themes have an internal or external impact is specified. Any limits to the scope are specified. Any changes to the internal reporting boundary

are described in the methodological note in the 2016 Annual Report. More information on the external reporting boundaries and any restrictions is provided in the 'Methodology and Reporting Criteria' section of 'Saipem Sustainability 2016'.

Limited audit

Reporting is subject to limited controls by the same, sole external auditor used for the Annual Report, in which this section is included, and for the document 'Saipem Sustainability 2016'.

SUSTAINABILITY INDICATORS

This section has been prepared in accordance with the principles of the GRI G4 standard and is organised by paragraph, each of which investigates a different theme.

SAIPEM PEOPLE

■ Employment

		2014	2015	2016
Total employees at year end, of which:	(No.)	54,637	46,346	40,305
- Senior Managers	(No.)	421	417	399
- Managers	(No.)	5,012	4,972	4,276
- White Collars	(No.)	23,907	21,549	18,496
- Blue Collars	(No.)	25,297	19,408	17,134
Women	(No.)	5,832	5,257	4,251
Employees in non-European countries	(No.)	43,334	35,793	30,343
Employees with full-time contracts	(No.)	54,350	46,073	40,060
Employees with a key professional role	(No.)	19,774	17,840	14,991
Employees recruited through an agency	(No.)	-	4,489	5,643
Termination of employees with key professional role	(No.)	4,518	5,533	5,274
Voluntary turnover of employees with key professional role	(%)	8.01	6.38	8.28
Total turnover	(%)	-	-	40

In 2016 there was a 13% reduction in the workforce. These reductions were mainly due to the completion of some projects and the reduction of operations in Mexico, Canada, South America (especially in Venezuela) and Nigeria. In Italy there was a reduction of 12.3% in the workforce linked above all to the transfer of the Rome-Vibo Valentia engineering centre and staff rationalisation. Women employees represent 11% of the workforce, a figure in line with that of 2015. As for employees with a key professional role, they now represent 37% of the workforce, in line with the 2015 figure of 38%.

The voluntary turnover rate of key resources for the business was 8.28% in 2016, a figure slightly up compared to 2015, but in line with the figure of 2014. The overall turnover rate in 2016 was 40%, a figure that should be seen in the context of, a) the extremely dynamic situation in the Oil & Gas market which entailed, following a major reduction in investments in the sector, a considerable decrease in operations and b) the nature of Saipem's business, being a contractor company working for large projects with varying durations (from a few months to years). Due to these factors, the qualitative-quantitative sizing of Saipem's human capital was subject to fluctuations depending on the different operating phases of the projects. This involved a considerable increase in the workforce in a given area at a given time and a proportionate reduction when projects come to an end. Total turnover is calculated as the ratio of annual terminations to the average of the resources in the year.

Considering only the voluntary turnover rate of companies whose job performance is not affected by the end of projects (such as Saipem SpA, Saipem SA and Sofresid), turnover was 3.1%, a reduction of 1.68 percentage points compared to 2015. The turnover rate was calculated as the ratio of the number of annual voluntary resignations and the average of key resources in the year. Saipem uses personnel hired through employment agencies in some geographic areas and for some projects; at the end of 2016, there were 5,643 people.

Saipem gives its employees, bearing in mind local conditions, a range of benefits and methods for allocating them. These mainly include; supplementary pension funds; supplementary healthcare funds, mobility support services and policies, welfare initiatives and family support policies; catering (lunch tickets); training courses aimed at ensuring more effective integration within the socio-cultural context.

These benefits, when applicable, were offered to the whole target population, regardless of contract type (temporary/permanent), except for those specific services that may be incompatible in terms of the timing of the service with the duration of a contract.

Skills development

Saipem bases its business success on a strong technical capacity of both its assets and its employees. The skills of the Saipem workforce are essential in guaranteeing operational excellence. Periodic skills assessments, with numerous training and development programmes, are conducted to reduce the loss of key skills for the business.

		2014	2015	2016
Training				
Total hours of training, of which:	(hours)	2,615,706	1,638,098	1,611,377
- HSE	(hours)	1,445,829	1,209,769	1,365,336
- managerial potential and skills	(hours)	48,425	36,390	24,446
- IT and languages	(hours)	100,106	54,226	20,969
- professional technical skills	(hours)	1,021,346	337,713	200,626
Skills assessment				
Skills assessment	(No.)	3,495	4,897	2,738
Performance evaluation				
Performance evaluation to which employees are subject, of which:	(No.)	28,787	18,446	24,144
	(%)	53	40	60
- Senior Managers	(No.)	426	398	375
- Managers	(No.)	5,359	2,734	3,034
- White Collars	(No.)	15,968	9,406	10,054
- Blue Collars	(No.)	7,034	5,908	10,362

In 2016, the total number of hours of training delivered remained constant, despite the significant reduction in the workforce during the year. The distribution of training hours compared to 2015 varied due to changing business needs and the need to streamline training efforts.

In quantitative terms, HSE training was the most significant. In 2016, 5.28 hours of HSE training were delivered for every 1,000 hours worked, an improvement on the figure for 2015. Of a total of around 1.36 million hours of HSE training, 743,296 were delivered to subcontractors. Of the remaining 622,041 hours of HSE training delivered to employees, 232,684 represent specific training related to each employee's professional role. On average, each employee attended 21.5 hours of training (24.8 in 2015), of which 15.4 were on HSE (15.6 in 2015).

In 2016, Saipem finalised the new Responsible Leadership Model which is adaptable to all levels in the company. The model endeavours to encourage the development of managers capable of making decisions that best reconcile the need for integrity with the business's needs, with a view to long-term value creation for the company. The new model has led to an analysis aimed at remodelling human resources management processes including the assessment of potential. For this reason the managerial appraisal processes and the assessment/development centre have been deferred to ensure effectiveness and coherence with the new Model.

Activities in 2016 focused on redefining the approach to these types of initiatives, and on identifying new selection criteria for assessments and more appropriate tools and techniques. The new methodology will enable more complete and detailed evaluation of an employee's potential; for the adoption of online diagnostic testing, various tests have been designed and developed to detect, in addition to leadership skills, distinctive traits, motivational drivers and logical, numerical and verbal skills.

Skills assessment in 2016 focused exclusively on technical skills, linked to the continuation of the K-Map initiative, which is part of the wider-ranging K-Factor project. The objective of this initiative is to map and monitor employee skills with special focus on roles considered critical for the business. The figure of 2,738 for skills assessments refers only to evaluations completed in 2016. A higher number of skills assessments created in 2016 will be completed under the work plan, in the first half of 2017.

In 2016, 60% of personnel were subject to performance evaluations, a significant increase over the year. In 2016, there was a marked rise in the percentage of blue collar employees involved in the performance evaluation process. This demonstrates the continued commitment of Saipem to disseminating a corporate culture that appreciates the contribution of each employee to achieving the business objectives. In fact, performance evaluations reflect the need to assess, encourage and develop the results obtained by each employee along with behaviours in line with the Saipem Leadership model.

Because of its importance to the business, the Competence Assurance & Assessment was an important programme, launched from 2014 to 2016 in the Offshore, Drilling and Floaters business units. The purpose of the programme is to evaluate in a structured manner, through practical and theoretical tests, if personnel have all the skills required for their professional role. Guaranteeing maximum professionalism of personnel is essential for efficient and safe operations.

More information on the skills management system can be found in the document 'Saipem Sustainability 2016'.

Industrial relations

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

		2014	2015	2016
Employees covered by collective bargaining	(%)	53	59	58
Strike hours	(No.)	54,456	35,018	65,196

Of more than 34,000 employees monitored (the total includes full-time Italian employees, French employees irrespective of the country they work in and local employees for all other countries), 19,915 are covered by collective bargaining agreements. It is important to bear in mind that Saipem also operates in countries where there are no provisions for these types of agreement.

In 2016, various industrial arrangements were renewed both in the form of collective bargaining agreements (renewal of the 'CCNL metalmeccanico' – national collective bargaining agreement - metalworkers – and the 'CCNL Marittimo - Sezioni Mezzi Navali Speciali' – national collective bargaining agreement – Maritime workers [Special Maritime Vessels Section]) and supplementary agreements (e.g. the Profit-Sharing Bonus). The signing of the agreement on early retirement under Article 4 of the Fornero Law was particularly important.

In 2016, the total number of strikes for the Saipem Group increased compared to the previous year. The strikes took place in Nigeria, Brazil, Italy, Egypt and Angola. Over half the number of strike hours for the year refer to Nigeria, due to dismissals following the completion of projects. The strike in Brazil, which took place in January 2016, was a reaction to disciplinary measures taken by the Company. The strike was declared illegal by the authorities and all staff immediately returned to work. In Italy, the strikes mainly concerned issues related to the renewal of the National Collective Bargaining Agreement for the energy, petroleum and engineering sectors.

More information is available in the 'Human resources and health' section of the Directors' Report in the 'Annual Report 2016'.

Diversity and equal opportunities

Gender diversity

		2014	2015	2016
Women				
Employees	(No.)	5,832	5,257	4,251
Senior Managers	(No.)	20	22	23
Managers	(No.)	684	704	600
Compensation				
Ratio of basic salary of women to men, by employee category:				
- Senior Managers	(%)	91	91	88
- Managers	(%)	87	82	80
- White Collars	(%)	94	92	86
- Blue Collars	(%)	138	45	101

Age diversity

(No.)	2014	2015	2016
Age groups			
Employees under 30	10,480	7,595	5,809
of which women	1,408	1,097	735
Employees aged between 30 and 50	35,264	31,436	28,418
of which women	3,822	3,529	2,961
Employees over 50	8,893	7,315	6,078
of which women	668	631	555

Cultural diversity

(No.)	2014	2015	2016
Multiculturalism			
Number of nationalities represented in the employee population	131	128	120

The protection of specific categories of workers is guaranteed through the application of local laws and reinforced by specific corporate policies that highlight the importance of this issue. The aim of these is to ensure equal opportunities for all workers in an attempt 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 situations this protection is reflected particularly in specific regulations that provide for minimum entry requirements for disabled and young staff, or for set proportions between local and expatriate personnel.

As regards gender diversity, the percentage of women holding managerial positions with respect to the total number of women increased from 13% in 2015 to 15%.

Saipem has precise guidelines to standardise remuneration policies. This highlights Saipem's continued commitment to affirming the principle of 'equal pay for equal work' and reducing the pay gap between men and women, in all of the local realities where it operates although in some cases, the result of the gender pay gap indicator is influenced globally also by the dynamics of manpower which in 2016 were consistent. This resulted in a significant positive change in the indicator relating to blue collar employees (101% in 2016 and 45% in 2015). Apart from this, the most significant change was in the white collar category, where there was a decrease in the indicator (86% in 2016 compared to 92% in 2015). Apart from the abovementioned factors, it should be noted that the female population, especially women with the highest professional qualifications, are typically younger on average than men thus resulting in lower corporate seniority and, consequently, lower salaries for women.

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

Saipem promotes the work/family balance of its personnel through regulations and/or local policies that guarantee parental leave. In all environments, maternity/paternity leave is regulated and only differs in timing and type of leave from work. There was a slight increase in the use of parental leave for fathers dictated by provisions that accentuate family support. In 2016, Saipem had 1,278 employees, 725 men and 553 women, who used parental leave for a total of 55,215 days; at the same time, it is noted that in the same period 1,037 employees, 665 men and 372 women, returned to work from maternity/paternity leave, with an 81% return rate from parental leave.

LOCAL PRESENCE

Saipem is present in many regions, working with a decentralised structure in order to respond better to local needs and sustainability aspects. Wherever it works, Saipem plays an active role in the community, providing a contribution to the social and economic life of the territory, in terms of local employment and value creation.

In line with client requests and indications in the management of its projects, Saipem uses social-economic impact evaluations and studies supplied by the clients themselves or produced in-house, if necessary. The operations in which 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. Typically, the instrument used is a Socio-Economic Impact Assessment (SIA) or the ESIA (Environmental Social Impact Assessment). As a result of this study, Saipem collaborates with the stakeholders involved in order to prepare an Action Plan which defines the necessary actions to manage the impacts on local communities.

With a view to mitigating impacts on local populations and areas, Saipem has implemented specific analysis tools to identify areas of intervention and lines of action. As regards relations with local areas, Saipem has a process in place for identifying the main stakeholders, as well as the means for involving them in order to establish a constructive and ongoing dialogue.

Saipem's local presence can take two main forms: a long-term presence where the Company owns fabrication yards or other operating structures; and a short/mid-term presence where Saipem is involved in a specific project. Saipem's involvement and dialogue with local stakeholders therefore depend on the type of presence.

(€ million)	2014	2015	2016
Expenses for initiatives targeting local communities	1.992	2.863	1.902

During 2016, Saipem committed, through its operating companies, to consolidate relations with local stakeholders, both through direct involvement and studies and analyses aimed at understanding the needs of the area and planning interventions. The decrease in spending in 2016 was mainly due to the completion of an important project in Nigeria and the reduction of operations in South America.

Of these €1.902 million, more than €1.1 million were allocated to operational projects. In 2016, Saipem implemented 54 projects, covered by agreements with local stakeholders in 7 countries, confirming focus on training and socio-economic development (which altogether account for more than 90% of the total spending).

Saipem has adopted a tool for assessing the positive effects of externalities generated in local areas in a strategy of maximising Local Content. Known as 'Saipem Externalities Local Content Evaluation' (SELCE), the model takes into account the indirect positive effects on the supply chain and the side effects generated on society. In 2016, the model was applied for the El Elcino Topolobampo project in Mexico.

During 2016, Saipem was not involved in any significant conflicts with local communities and indigenous peoples. Further information and details on the initiatives implemented in the local communities and the SELCE model are available in the document 'Saipem Sustainability 2016'.

Local value creation

Saipem actively contributes to socio-economic development, creating value locally by investing in local economies and by employing local personnel. Employing local personnel not only means paying them a salary, but also developing their skills through training programmes or on-the-job training.

Local economic development

(%)	2014	2015	2016
Project-based orders placed with local vendors, of which in:	56	68	69
- Americas	63	77	82
- CIS	40	70	69
- Europe	97	91	98
- Middle East	74	68	72
- North Africa	32	46	50
- Southern and Central Africa	27	51	46
- Far East and Oceania	67	86	93

		2014	2015	2016
By geographic area ^(*) , of which:	(€ billion)	10.89	8.27	5.66
- Americas	(%)	13	9	6
- CIS	(%)	4	13	8
- Europe	(%)	45	35	38
- Middle East	(%)	16	22	27
- North Africa	(%)	1	0	3
- Southern and Central Africa	(%)	8	12	9
- Far East and Oceania	(%)	12	8	9

(*) Geographic area of the vendor.

In 2016, of a total of €5.66 billion of orders, excluding €1.44 billion (mainly due to investments and staff costs), €2.92 billion was ordered from local suppliers. An order is only considered local when the supplier is from the same country as the project for which the order is made.

In 2016, the total orders decreased significantly compared to 2015 (-31%), in line with the operational activities during the year. Despite the overall decrease in procurement, the quota of local procurement was more or less stable compared to 2015 (68% in 2015).

In the Americas, although a significant reduction of the total procurement can be seen, the percentage of local procurement over the area as a whole rose compared to the previous year. One of the most important projects that contributed to this result, the Mexican project El Encino Topolobampo, where civil engineering work was awarded to local suppliers, is worthy of mention. Two other projects contributing to this result were Lula Norte and Lula Extremo where the hydrostatic testing of the pipeline was carried out by American suppliers.

The CIS area showed a substantially stable percentage of local procurement compared to the previous year. Among the projects that have made a greater contribution to the maintenance of the local procurement rate were the Shah Deniz 2 barges and vessels hired from local suppliers.

2016 saw the purchasing volume from the European area almost halved compared to last year. In this scenario the percentage of local procurement was higher than the previous year with an increase of 7 percentage points. It should however be emphasised that the European area already had a particularly high percentage of local procurement in the previous year accounting for 91% of the total in the area. The development of facilities for the storage of natural gas in Cornegliano Laudense for Italgas Storage (IGS) was the project that contributed most to this result.

In 2016, the Middle East showed an increase of 4 percentage points in local procurement; this result is significant because this is the region where there is the highest volume of procurement.

Procurement in North Africa in 2016 increased significantly (€152 million in 2016 compared to €27 million in 2015) thanks to the acquisition of the Zohr project in Egypt. The percentage of local procurement increased from 46% in 2015 to 50% in 2016.

In the Far East and Oceania, local procurement increased by 7% compared to 2015. In particular, the Tangguh project contributed to this 2016 increase due to earthworks, demolition, civil engineering works and storage of materials.

In Southern and Central Africa the reduction of the area's total procurement compared to 2015 was mainly caused by the end of orders related to the Kaombo project with no new projects to replace it.

Local employment

(%)	2014	2015	2016
Local employees	79	80	80
Local managers (*)	43	44	45

(*) Manager refers to the total number of middle and senior managers.

Local personnel in 2016 amounted to 32,266 (80%), in line with the figures for 2015, which differs only by one percentage point compared to 2014 (79%), with the percentage of local managers increasing by 45%. Despite the decrease in the total workforce, the facts show Saipem has continued to pursue its commitment to value creation in areas where local personnel are employed. The percentage of local managers is calculated excluding figures for France and Italy; the inclusion of these countries would result in a percentage of 76% of local managers. The method used transparently and faithfully demonstrates the constant commitment of Saipem to promoting Local Content, also at the managerial position level.

Further details on initiatives implemented in 2016 are available in the document 'Saipem Sustainability 2016', in the 'Directors' Report' section of the 'Annual Report 2016', and in the 'Sustainability' section of the website.

WORKPLACE HEALTH AND SAFETY

In Saipem, the culture of health and safety of workers is guaranteed and supported by the external regulatory environment, mainly characterised by laws and agreements at national and company level, and by an internal environment characterised by specific policies on health and safety that set particularly stringent criteria compared to the local contexts, which today still have regulatory systems in the process of development.

Not all countries in which Saipem operates have trade unions at both national and local level. Where specific agreements are in place, they can be broken down into three main lines pursued by the Company and shared with the trade unions:

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

In Italy, workplace health, safety and the environment are governed by specific contractual provisions and the National Collective Labour Agreement. In particular, the collective agreement provides for the appointment of corporate representatives of the workers for their protection in the areas of health, safety and environment (RLSA). The appointment is made by election and the number of representatives is provided for by law and the collective bargaining agreement. A specific trade union agreement between Saipem and the trade unions defines the competences of the RLSA and their full authority to carry out their activities even over workers assigned temporarily to activities at yards and work-sites other than those of origin.

With a view to promoting the health and safety of its employees, in 2007 Saipem launched the LiHS (Leadership in Health and Safety) programme. This programme comprises various stages which, through workshops that involve all the company levels, set the aim of triggering cultural change in people so that they are more attentive and aware of health and safety issues. The programme is aimed at both staff and subcontractors on Saipem sites. The figures for the last three years are shown below:

	2014	2015	2016
LiHS Programme			
Phase 1			
Completed workshops	123	119	71
Number of participants in Phase 1 workshops	1,630	1,493	934
Phase 2			
Number of 'cascading events'	179	233	153
Number of participants in 'cascading events'	6,449	6,999	4,221
Phase 3			
Number of 'Five Stars Training' sessions	384	359	190
Number of participants in 'Five Stars Training' sessions	4,111	4,065	2,129
Phase 4			
Number of 'Leading Behaviour Cascading events'	119	257	347
Number of participants in the 'Leading Behaviour Cascading events'	4,060	7,283	7,625
Phase 5			
'Choose Life' campaign'	333	215	21
Number of participants in the 'Choose Life' campaign	5,570	2,682	434

The LiHS data are updated on a periodic basis, not always in line with the calendar year. Changes may occur from year to year.

LiHS programmes also involve subcontractor personnel and they have been included in the figure for participants. Further information on the LiHS programme is available in the document 'Saipem Sustainability 2016'.

Safety performance

		2014	2015	2016
Man-hours worked	(million hours)	265.81	234.38	258.62
Fatal accidents	(No.)	1	2	1
Lost Time Injuries	(No.)	73	70	51
Lost workdays	(No.)	3,696	4,439	3,106
Severity Rate	(ratio)	0,01	0,02	0,01
Total Recordable Incidents	(No.)	289	253	201
Rate of absenteeism	(%)	4.00	4.64 ^(*)	4.86
LTI Frequency Rate (LTIFR)	(ratio)	0.28	0.31	0.20
TRI Frequency Rate (TRIFR)	(ratio)	1.09	1.08	0.78
Tool Box Talks	(No.)	891,256	796,723	704,900
Safety hazard observation cards	(No.)	908,340	710,817	623,981
HSE meetings	(No.)	41,136	25,338	19,454
Job Safety Analysis	(No.)	256,345	263,833	241,304
HSE inspections	(No.)	285,118	222,598	154,338

(*) To be consistent with 2016 a second decimal place has been added in the indicator.

All safety statistics also include performance by subcontractors. For performance in the area of workplace safety, in 2016 a TRI Frequency Rate value (TRIFR) of 0.78 was recorded, significantly better than previous years, than the annual target (TRIFR=1.04 was the company's target for 2016) and than the benchmark figures for the sector. This result is definitely linked to the many initiatives carried out throughout 2016, aimed at maintaining occupational safety standards at the highest levels at all Saipem locations. Unfortunately, in 2016 there was a fatal injury to a Saipem subcontractor in an external yard (in the UAE) during the installation of pyramid supports which were necessary for some structures and systems.

The total figure for absenteeism at Saipem in the year 2016 came to around 3.4 million hours, with an average rate of 4.86%, which, on the whole, is satisfactory. The total hours of absenteeism are accounted for mainly by sick leave, paid leave and unpaid leave according to local regulations.

The absenteeism rate increased slightly compared to the previous year. This increase was mainly because the rate is calculated as the total hours of absenteeism in the year (including staff no longer on the payroll at the end of the year), divided by the number of employees at year end, which, as already stated above, decreased by about 13% compared to 2015.

The calculation methodology used for the main indicators is outlined as follows:

- the man-hours worked are the total number of hours worked by employees of Saipem and contractors working on the operating sites;
- lost days of work means 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 of the number of days lost starts from the second day after the accident up to the day on which the person is able to return to work;
- LTIFR and TRIFR are calculated respectively as the number of LTI and TRI divided by hours worked, all multiplied by one million (these figures include injuries to both employee and contractors);
- the lost days are the sum of all the calendar days lost for incidents in the reference year. The severity rate is the working days lost divided by hours worked, multiplied by a thousand;
- the absenteeism rate is calculated as the ratio between the total hours of absence and the total hours theoretically worked in the year. The annual theoretical working hours are calculated in proportion to the workforce figure for December 31, 2016. The total hours of absence do not include parental leave and estimated holiday hours.

Further initiatives implemented to promote safety in the workplace are described in the document 'Saipem Sustainability 2016'.

Health promotion

Saipem considers the health and well-being of its employees of inestimable value. We continually strive to reinforce the Health Management System. The system is designed to be fully functional in remote and frontier areas, so as to guarantee the same level of quality at all of Saipem's offices and worksites. The system has the following objectives:

- guarantee all workers ideal physical and mental health and therefore better and safer work performance through strict health control programmes;
- ensure prompt and appropriate response in medical emergencies;
- develop and implement informative and prevention programmes and initiatives to help identify and control potential health risks present in the work environment;
- provide support to managers for policy creation and adoption of key decisions on workers' health.

(No.)	2014	2015	2016
Vaccines administered to employees and subcontractors	9,010	6,945	4,018
Medical staff	587	551	427
Medical consultations	107,890	124,224	139,354
Medical fitness examination	47,048	44,939	27,329
Occupational illnesses reported	13	26	9

In 2016, 27,329 medical fitness examinations were performed, a decrease of 39% compared to 2015, due to the reduction of the workforce and the 2015 extension by two years of the validity of the medical fitness certificates, in line with industry standards. In 2016, 4,018 vaccinations were administered (mainly for hepatitis A and B, tetanus, typhoid fever, yellow fever and influenza). The medical department performed 139,354 consultations, of which 51,422 were for prevention and follow-up visits.

Saipem organises numerous health promotion initiatives and programmes for its employees, such as:

- Programmes for the prevention of cardiovascular diseases. A significant number of repatriations in 2016 were associated with cardiovascular disease.
 - The 'Cardiovascular Disease Prevention' (CVDP) programme is based on the promotion of a healthy lifestyle and on risk assessment through overall monitoring of the state of health of employees. Employees considered to be at risk of cardiovascular disease are included in the 'Risk Factor Follow-up' (RFF) programme. In 2016, 103 sites were involved in this programme. Checks were performed on more than 19,000 employees, and those deemed at risk were included in the RFF programme.
 - In 2007, Saipem launched a Telecardiology programme with the aim of providing assistance at remote sites. In 2016, 57 sites were covered and a total of 3,448 ECGs (electrocardiograms) were transmitted; of these, 119 were treated as potential cardiac emergencies and swiftly dealt with by specialists. The other ECGs supported the CVDP programme in the global monitoring of the cardiovascular risk of employees.
- Malaria prevention programmes. Since Saipem operates in a number of countries considered at risk from malaria, 'Malaria Awareness Lectures' are organised for employees. At the end of 2016, 5,542 non-immune employees operating in these areas had taken the course.
- 'Pre-Travel Counselling'. The health information project, regulated by Italian law and the Company's corporate standard, implemented in Italy in 2008, is aimed at workers travelling abroad. The aim of the project is to provide information about specific risks in the destination country: biological, climatic and travelling risks. Following detailed evaluation of the epidemiological situation of a country, vaccinations may be recommended along with any behaviours to avoid. Since the programme began, more than 7,000 employees have been trained on the risks associated with their countries of destination (620 in 2016).
- Programmes for the promotion of a healthy lifestyle.
 - The 'Healthy Food' programme has been implemented with the collaboration of the catering companies that work for Saipem and with the support of the Company's medical department. In 2016, the programme was implemented at 18 operational sites.

- The 'Choose Life' programme (the figures for which were given above in the section on the LiHS programme) revolves around a two-hour workshop, in which the short film 'Choose Life' is shown with the aim of promoting a health culture. In 2016, 434 persons participated in the programme.
 - The 'Stop Smoking' programme had encouraging results and in 2017 it will be offered at a greater number of operational sites.
- The 'Workplace Health Promotion' (WHP) programme. Validated by the regional government of Lombardy, Saipem SpA joined this programme (for Italian sites) in 2014. In its third year of implementation, it is the result of the joint efforts of employers, workers and local institutions. The aim is to improve health and well-being in the workplace. It provides a path for effective implementation of best practices in the field of health promotion. The WHP programme includes the development of activities in 6 areas: promotion of a correct diet, anti-smoking campaigns, promotion of physical activity, road safety and sustainable mobility, alcohol and substance abuse prevention, personal and social well-being and the work/family balance. In 2016, for the third consecutive year, Saipem received an award for achieving the programme's goals.
- Further information on Saipem's approach to promoting health for employees and local communities can be found in the document 'Saipem Sustainability 2016'.

BUSINESS ETHICS

Saipem is committed to operating within the law, regulations, statutory provisions, codes of conduct and in observance with the Code of Ethics. The Universal Declaration of Human Rights adopted by the United Nations, the Fundamental Conventions of the ILO (International Labour Organisation), the OECD Guidelines for Multinational Enterprises and the principles of the UN Global Compact are fundamental principles on which Saipem bases its Code of Ethics and conducts its operations.

Saipem's compliance with the law, regulations, statutory provisions, codes of conduct, ethical integrity and fairness, is a constant commitment and duty for all its people, and it defines the behaviour of the entire organisation. Saipem's business and corporate activities have to be carried out in a transparent, honest and fair way, in good faith, and in full compliance with competition protection rules.

■ Anti-corruption

Saipem organises training courses, using both e-learning and workshops, on the subjects of anti-corruption, the Code of Ethics, Model 231, and on other issues to raise employee awareness of these issues so as to avoid non-compliance with the law. The number of training hours has been calculated by multiplying the number of participants by the average hours of duration of the course.

(No.)	2014	2015	2016
Employees trained on issues of compliance, ethics and anti-corruption	-	-	2,813
Participation in training courses on compliance, ethics and anti-corruption issues	1,353	1,929	3,032
Hours of training on issues of compliance, ethics and anti-corruption	3,218	4,264	6,713

Participation was higher than the number of participants since some employees were enrolled in more than one course in this area.

This trend confirmed the continued growth bearing witness to the company's commitment to managing these issues.

More details on preventive corruption measures are available in the document 'Saipem Sustainability 2016', in the '2016 Annual Report', in the '2016 Interim Consolidated Report' and '2016 Corporate Governance and Shareholding Structure Report'.

■ Sustainable supply chain

All suppliers involved in procurement activities with Saipem must read and accept the Model 231 in full, including the Saipem Code of Ethics which draws its inspiration from the Universal Declaration of Human Rights of the United Nations, the Fundamental Principles of the International Labour Organisation (ILO) and the OECD Guidelines for Multinational Enterprises. This model is included in all standard contracts issued by Saipem. In the qualification phase, the vendor fills out the Vendor Declaration in which it makes a commitment to act in strict accordance with the principles defined in the Saipem Code of Ethics and to respect human rights in accordance with Saipem's Sustainability Policy. It also undertakes to fulfil the requirements in accordance with the national law in force on salary, social security contributions and insurance obligations in relation to its personnel.

In addition, in 2011 Saipem integrated its own process for evaluating vendors with the aim of assessing the social responsibility of its supply chain. The current vendor qualification system has been integrated with requirements for complying with social and labour rights, in line with the 'Fundamental Principles and Rights at Works' of the International Labour Organisation (ILO) and the SA8000 standard. To achieve this, there was a particular focus on child and forced labour, freedom of association and right to collective bargaining, remuneration, working hours, discrimination, disciplinary procedures and health and safety. Another important

aspect of the control of the supply chain are the questionnaires in which a vendor's performance can be thoroughly detailed. In 2016, the questionnaires included various questions on respect for labour rights and the Code of Ethics.

(No.)	2014	2015	2016
Qualification questionnaires on issues of labour rights analysed	401	367	106
Number of social audits conducted	25	13	6
Countries in which the social audits were conducted	2	4	3
Training hours delivered on a sustainable supply chain	-	-	245
Number of vendor feedback modules issued	1,131	2,175	1,475
Vendors qualified for more than 10 years	-	-	4,692

In 2016, 106 vendor qualification questionnaires were analysed in detail. These were selected according to the commodity codes and the countries with a potential risk of violation of human and labour rights, with requests for further details and documentation as necessary.

In 2016, 6 social audits were performed on new vendors (India, China and Indonesia). In total, since the beginning of the campaign in 2011, 104 audits have been carried out. An internal training programme was also launched with a view to improving knowledge and awareness of issues relating to human and labour rights in the supply chain. The training was targeted at the functions with the most contact with vendors. In 2017 an e-learning course on the subject will be launched in order to reach more people in more countries (in 2016 classroom training was provided at various Italian locations). Over the course of the year, 1,475 vendor feedback modules were issued, 74% having a positive assessment of the vendor.

Further information can be found in the document 'Approach to Sustainability', 'Saipem Sustainability 2016' and in the Code of Ethics.

■ Security practices

In the management of security, Saipem gives utmost importance to respecting human rights. As witness to this, in 2010 Saipem introduced clauses concerning respect for human rights into contracts with external security companies. Any non-compliance represents due grounds for cancellation of the contract. Until now, the contractual clauses on human rights have been included in the 'General terms and conditions' and therefore in all contracts.

For all new operational projects in which Saipem is responsible for security, a Security Risk Assessment on the country in question is made prior to any offers being tendered. If a decision is made to proceed with the offer, a Security Project Execution Plan is also prepared. The security risks related to operating activities and context is analysed, including any issues of human rights violations. The actions required to manage and reduce these to a minimum are decided based on the risks identified.

In December 2016, the third edition of the training programme on human rights and work practices was offered to personnel in Azerbaijan. In 2017, Saipem will extend this training to other Company sites.

Further information is available in the document 'Saipem Sustainability 2016'.

■ Reporting suspected violations

Saipem has a Corporate Standard that details the process of managing reports.

The term 'report' refers to any information 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, by Saipem SpA employees, directors, officers, audit companies 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, and so on).

Saipem has prepared various channels of communication in order to facilitate the sending of reports, including, but not necessarily limited to, regular post, fax, yellow-box, email, and communication tools on the intranet/internet sites of Saipem SpA and its subsidiaries.

The Internal Audit function ensures that all appropriate controls are in place for any facts that have been reported, through one or more of the following activities, guaranteeing that these are carried out in the shortest time possible and respecting the completeness and accuracy of the investigation. Investigations consist of the following phases: (a) preliminary check; (b) assessment; (c) audit; (d) monitoring corrective actions.

The Internal Audit prepares a quarterly report on reports received that, following examination by the Saipem Board of Statutory Auditors, is transmitted to the following persons or officers at Saipem SpA: the Chairman, the Chief Executive Officer (CEO), the external auditors, the members of the Whistleblowing Committee and the manager of the Planning, Administration and Control Function, the members of the Whistleblowing Team, the Anti-Corruption Unit and Legal Compliance and, for reports within their

remit, to the Compliance Committee, the Chief Operating Officer or the managers of the functions that report directly to the CEO, to the senior management of each subsidiary involved and their respective control bodies.

(No.)	2014	2015	2016
Number of files			
Of which:	67	78	125
- founded or partially founded	16	20	17
- unfounded	51	56	72
- open	-	2	39 (*)

The three-year figures are updated to December 31, 2016.

(*) The 39 dossiers count includes 3 files closed by the internal control system, but reopened for other reasons.

Details of some categories of files are provided below:

(No.)	2014	2015	2016
Files on cases of discrimination			
Of which:	5	11	19
- founded or partially founded	-	2	1
- unfounded	5	9	11
- open	-	-	7
Files on workers' rights			
Of which:	19	15	30
- founded or partially founded	1	5	4
- unfounded	18	10	16
- open	-	-	10
Files on violations of the rights of local communities			
Of which:	-	2	2
- founded or partially founded	-	-	-
- unfounded	-	2	1
- open	-	-	1

The data are updated to December 31, 2016.

In 2016, 19 files were opened on issues of discrimination, of which 7 are still open and 12 closed; 30 files were opened on issues of workers' rights, 10 of which are still open and the remaining 20 closed; 2 files were opened on issues related to indigenous communities, of which one is still open and one closed. All 51 files were submitted to the Compliance Committee of the companies involved in the reports.

With regard to the issues of discrimination, in 9 cases the reporting files were closed by the Compliance Committee or Saipem's Statutory Auditors of Saipem SpA, on the basis of investigations, as it was deemed there had been no violation of the Code of Ethics with reference to the facts reported. In one case a violation was confirmed and two cases were held unfounded; however, corrective actions were implemented, in the form of a verbal warning to the employees involved in the behaviours reported, with dedicated training sessions and by implementing the company's regulations. Furthermore, during the course of 2016, 6 files from 2015 and 1 from 2014 were closed relating to discriminatory behaviour. These had still been open at the time of the last reporting. Of the 7 cases closed, 2 were unfounded, 2 were held partially founded and 3 cases were unfounded, for which corrective actions were implemented in the form of a work instruction, monitoring of workplace behaviour and in raising awareness of compliance with the rules in the Code of Ethics.

Either the relevant Compliance Committee or Saipem's Statutory Auditors closed 9 files on workers' rights issues, on the basis of investigations, deciding that cases of violation of the Code of Ethics did not exist in the cases reported. In 4 cases a violation was confirmed and in 7 cases were held unfounded, for which significant corrective actions were implemented in the form of formal warnings or disciplinary action against those responsible for the reported behaviour, dedicated training sessions, raising awareness to respect the rules and types of behaviour established in the Code of Ethics and in conducting random checks.

In the course of 2016, 6 files on workers' rights issues from 2015, and 2 from 2014, were closed. These had still been open at the time of the last reporting.

1 file was held unfounded, 4 founded and 3 cases were unfounded, for which significant corrective actions were implemented in the form of disciplinary action against those responsible for the reported behaviour, holding dedicated training sessions, and in raising awareness on compliance with corporate procedures.

One file on issues concerning relations with local communities was closed. The Board of Statutory Auditors of Saipem SpA, on the basis of the investigation, closed it having decided that there had been no violation of the Code of Ethics in the case reported. In relation to these cases, no corrective actions were implemented. Also in the course of 2016, 1 file from 2015 relating to indigenous communities was closed having been held unfounded.

ENVIRONMENT

Saipem's main commitment to the environment, as set forth in the HSE Policy, is to minimise the impacts on the environment caused by its operations and to pursue continuous improvement in environmental performance.

In the light of this commitment, the environmental strategies are oriented towards the reduction of any type of impact and the conservation of natural resources. A key element in these strategies is the promotion of widespread environmental awareness and the adoption of best practice in all of Saipem's sites and projects. This also includes pollution prevention activities that contribute to saving energy and water, and that encourage the re-use or recycling of waste.

Saipem's top management strongly encourages continuous improvement of environmental performance during operations. Saipem reaffirms its commitment to reducing environmental damage, pollution and, more generally, negative effects on the environment, through research and development programmes, environmental monitoring and a wide range of risk mitigation measures.

Energy and emissions

		2014	2015	2016
Energy consumption	(ktoe)	564.3	514.0	411.7
Total direct energy consumption, of which:	(ktoe)	536.5	488.2	388.1
- Natural gas	(ktoe)	0.9	1.5	1.4
- Heavy Fuel Oil (HFO)	(ktoe)	0.004	-	-
- Intermediate Fuel Oil (IFO)	(ktoe)	12.7	21.0	7.5
- Light Fuel Oil (LFO)	(ktoe)	43.2	28.7	1.4
- Diesel	(ktoe)	321.3	290.6	256.6
- Diesel Marine Oil	(ktoe)	152.3	139.7	111.8
- Gasoline	(ktoe)	6.1	6.8	9.5
Indirect energy consumption				
Electricity consumed	(MWh)	119,867.7	112,094.5	102,343.4
Renewable energy				
Electricity produced from renewable sources	(MWh)	310.8	309.9	305.0
Total direct and indirect greenhouse gas emissions				
Direct GHG emissions	(kt CO ₂ eq)	1,420.1	1,504.2 ⁽¹⁾	1,203.4
Indirect GHG emissions (Scope 2)	(kt CO ₂ eq)	49.1	43.0	38.9
Other significant emissions⁽¹⁾				
SO ₂ emissions	(kt)	4.2	5.1	3.8
NO _x emissions	(kt)	24.3	26.5	20.2
CO emissions	(kt)	10.6	12.0	10.3
PM emissions	(kt)	0.6	0.6	0.5
NMVOC emissions	(kt)	0.9	1.0	0.8

(1) The method of calculation of direct GHG emissions and other significant emissions was modified in 2015.

The total energy consumption in 2016 was 411.7 ktoe, down by about 20% compared to 2015.

The overall decrease especially with regard to gasoline consumption is mainly due to the reduction of operating activities of the offshore drilling and of onshore drilling (particularly in relation to Petrex) units and the completion of various projects, including the Cabiunas project (completed in 2015) and the Kashagan project (concluded in the first half of 2016).

In particular, the reduced consumption of Marine Diesel Oil was due to the completion of the Wasit and Normand Clipper project in 2015 and the general slowdown in offshore drilling. As regards Intermediate Fuel Oil and Light Fuel Oil, the reduction was mainly determined by the fact that some of the major vessels (Castorone and Saipem 7000) were in maintenance for most of the year. In addition, the Far Samson was inactive for almost five months.

Gasoline consumption increased due to activity at the Ploiesti welding workshop, on the Jazan project and on board Castoro 6. Saipem has developed various initiatives with the aim of increasing energy efficiency. The strategy consists of two main parts: an analysis of the assets and implementation of technical solutions together with training and awareness-raising initiatives.

In 2016, actions were taken to improve energy efficiency such as: improving the management of diesel power generators; consumption containment of equipment in stand-by mode; limiting the use of artificial lighting during daylight hours; repairing damaged compressed air lines; installation of frequency regulators; implementing a more efficient lighting system. After these measures were taken, the predicted savings in the Karimun (Indonesia) and Arbatax (Italy) yards were: 545,681 litres of diesel, 144 MWh of electricity and a total of 1,523 tonnes of CO₂ avoided.

Another action aimed at minimising energy consumption was the building of the new office at the Ravenna logistic base. The energy saving is due to the following systems adopted in the new office: thermal insulation of walls and windows, installation of a more efficient air conditioning system, and a photocell system to switch on the lights in the lavatories only when people are present. The savings achieved over the year consisted of 114 MWh and approximately 50 tonnes of CO₂ thanks to energy

efficiency measures, and roof installation of a photovoltaic system with 56 modules. The photovoltaic system produced 18.5 MWh and contributed to a saving of 7 tonnes CO₂.

In 2016, the route optimisation project, started in 2012, continued. Route optimisation consists of identifying the optimal route for the voyage, through satellite evaluation performed with specially designed software, in order to reduce navigation time and, consequently, fuel consumption. The best route is detected each day, taking into consideration weather conditions and currents. Analysis of the weather conditions is provided 4 times a day and on the basis of this information, Captains can choose the best route to minimise fuel consumption. In 2016, about 58 tonnes of fuel was saved, and therefore also around 180 tonnes of CO₂. Further information on these issues can be found in the Directors' Report of the 'Annual Report 2016' and in 'Saipem Sustainability 2016'.

Water

		2014	2015	2016
Total withdrawal of water, of which:	(10 ³ m ³)	6,318.6	5,226.4	6,972.9
- Fresh water/from aqueducts	(10 ³ m ³)	3,968.9	2,614.9	3,054.5
- groundwater	(10 ³ m ³)	1,132.7	1,571.6	2,571.9
- surface water	(10 ³ m ³)	116.7	152.8	69.5
- sea water	(10 ³ m ³)	1,100.3	887.0	1,276.9
Recycled and reused water				
Reused and/or recycled water	(10 ³ m ³)	1,326.1	309.9	308.4
	(%)	21	6	4

Saipem promotes the implementation of initiatives to achieve water savings both at project level and on operational sites. Water consumption in 2016 increased by 33% mainly because of the operations at the Jazan and Rabigh project. Both projects involve the use of a large number of personnel (with an impact on water consumption for domestic use) and the realisation of major construction activities.

To identify areas subject to a high water risk, Saipem carries out a two-step assessment. In the first, once all operational sites (yards and logistical bases) have been identified, Saipem uses the following instruments to assess the water risk: Global Water Tool, Aqueduct and Maplecroft. The second step involves assessing the water withdrawal, use, discharge and the systems present. In addition, if required by local regulations, contractual requirements or other specific requirements, Saipem also prepares a Water Management Plan and Water Assessment.

Biodiversity

The conservation of biodiversity and ecosystems is a fundamental element of the approach taken by Saipem to manage interactions of its activities with the surrounding environment, paying particular attention to the presence of:

- protected areas and other areas material to the conservation of biodiversity;
- endangered species;
- ecosystem services which are socially and ecologically fundamental, such as water. Saipem promotes efficient use and consumption of water, particularly in areas affected by high levels of water stress.

On all of its operations, Saipem implements all requirements and control measures needed to ensure the safeguarding of biodiversity and the integrity of ecosystems. These requirements are dictated by current regulations and, in the case where Saipem is a contractor, the contract documents (Environmental Impact Assessment, contract, client procedures, etc.) to which Saipem has agreed.

Where Saipem is the client, e.g. for the construction of new office buildings or permanent sites, specific studies must be prepared to assess the impact of the new works on biodiversity and local ecosystems and define suitable control and mitigation measures.

Discharges

(10 ³ m ³)	2014	2015	2016
Total waste water produced, of which:	4,015.7	3,746.3	4,858.9
- water discharged into sewers	482.6	569.4	427.7
- water discharged into bodies of surface water	1,007.2	1,182.2	2,556.3
- water discharged into the sea	950.9	1,064.6	1,142.7
- water discharged to other destinations	1,575.0	930.1	732.2

The increase in the volume of water discharged is due to the increase in water withdrawals.

Waste

(kt)	2014	2015	2016
Total weight of waste produced, of which:	453.6	508.5	907.6
- hazardous waste disposed of in landfill sites	32.1	31.9	36.1
- hazardous waste incinerated	3.5	2.8	1.6
- hazardous waste recycled	9.3	5.0	18.7
- non-hazardous waste disposed of in landfill sites	192.4	285.8	140.0
- non-hazardous waste incinerated	3.6	6.4	3.0
- non-hazardous waste recycled	212.7	176.5	708.1

The increase in non-hazardous waste was due mainly to activities connected with the South Stream WP 5.1 project. This project is divided into three main phases: the landing section (landfall), nearshore and offshore. The Saipem scope of work involves the engineering, procurement, construction and mechanical completion of the landing section.

The plan is for about 2.4 km of pipeline to be below ground level (1.5 metres deep). Near the shore there is a steep cliff, therefore the remaining 1.4 km of pipeline will be laid through micro-tunnels. As established by the contract requirements, earth excavated in connection with the project is recorded as non-hazardous waste disposed of in landfills. Saipem is committed to minimising the production of waste, and hazardous waste in particular, and to promoting the best practice already implemented at operating sites (e.g. recycling of some materials, waste monetisation).

Spills

		2014	2015	2016
Number of spills				
Total	(No.)	50	38	30
Spills of chemical substances	(No.)	14	4	5
Spills of oily substances	(No.)	36	34	25
Volume of spills				
Total	(m ³)	21.60	2.18	4.26
Spills of chemical substances	(m ³)	17.40	0.06	0.71
Spills of oily substances	(m ³)	4.20	2.12	3.54

In 2016, there was a reduction in the number of spills. As for the volume spilled, most was due to two incidents in Angola and Indonesia (both spills were around 1,000 litres). All incidents are reported and investigated appropriately in order to establish the causes and identify corrective actions to prevent such events from happening in the future. Each quarter, environmental bulletins and reports are disseminated throughout the Group in order to share the 'lessons learned'.

Further information on the Company's approach to spill prevention is available in the document 'Saipem Sustainability 2016'.

ADDITIONAL INFORMATION

Economic performance

(€ million)	2014	2015	2016
Net sales from operations	12,873	11,507	9,976
Operating expenses	10,399	9,723	9,674
Employee payroll and benefits	2,408	2,222	1,782
Seniority bonus schemes	6,786	4,427	4,652
Research and development costs	11	14	19
Income taxes	118	127	445
Dividends distribution	45	17	7

Saipem Group companies implement and manage the supplementary pension plans based on the legal and social system of the state in which the company operates. Despite the fact that laws in some countries such as the United States and the United Kingdom do not require that the employer pay into employee pension funds, Saipem has decided to support employee supplementary pension plans with a contribution from the company.

No contributions, direct or indirect, in any form, were made in 2016 to political parties, movements, committees or political and trade union organisations, to their representatives and candidates, except those provided by specific legislation.

Product responsibility

As a contractor, Saipem operates in accordance with the client's requests and in compliance with international regulations at all times, while the contractual responsibility for the product remains with the client.

For its technical and quality standards, Saipem refers to the contractual conditions imposed by clients. Therefore, clients are responsible for products, Saipem only for their manufacture. Saipem promotes the protection of the health and safety of all personnel engaged in its operational activities and of its host communities. The Company has implemented specific procedures and processes for the management of particularly complex systems, where the operational and safety-related risks are higher (see the document 'Saipem Sustainability 2016').

Customer satisfaction

Analysing and quantifying the perception of the client and how Saipem's work is perceived is a fundamental factor in the approach for continuous improvement. Saipem believes that constant monitoring of client satisfaction is vital to achieving the best results. The client satisfaction process is based on a questionnaire, administered online, which asks for client feedback on many topics, both managerial and technical, from engineering to procurement and construction. Specific sections are devoted to project management, quality, HSE and sustainability. These sections are designed to evaluate Saipem's capacity in its relations with local communities and the promotion of Local Content. In 2016, Saipem received 59 questionnaires from onshore, offshore and drilling project clients. The main results are as follows:

(No.)	2014	2015	2016
Client satisfaction questionnaires received	104	91 ⁽¹⁾	59
Average client satisfaction score (on a scale of 1 to 10)	8.14	8.27	8.17
Average client satisfaction score on sustainability issues ⁽²⁾ (on a score ranging from 1 to 10)	7.63	8.34	7.53

(1) Change due to data correction.

(2) 42 questionnaires were used in the calculation of the average client satisfaction score on sustainability issues (68 in 2015 and 82 in 2014).

Membership of associations

Saipem participates in numerous initiatives and associations that have as their main objective the sharing of best practices within their specific business sectors. The Saipem Group is a member of 72 associations. In particular, the parent company participates in 28 associations, including: ANIMP (Associazione Nazionale di Impiantistica Industriale - Italian Association of Industrial Plant engineering), Assomineraria, IADC (International Association of Drilling Contractors), IMCA (International Maritime Contractors Association), IPLOCA (International Pipeline & Offshore Contractors Association), and WEC (World Energy Council: Italian National Committee of the World Energy Council).

INDEPENDENT AUDITORS' REPORT



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Independent auditors' report on the "Sustainability Statements 2016" (Translation from the original Italian text)

To the Shareholders of
Saipem S.p.A.

We have carried out a limited assurance engagement of the "Sustainability Statements 2016" (hereinafter "Sustainability Statements"), the addendum to the "Annual Report 2016" of Saipem S.p.A. and its subsidiaries (hereinafter "Saipem Group") as of December 31, 2016.

Management's responsibility on Sustainability Statements

The Management is responsible for the preparation of the Sustainability Statements in accordance with the reporting principles detailed in the paragraph "Methodology, criteria and reporting principles" of the Sustainability Statements, as well as for that part of internal control that they consider necessary in order to allow the preparation of a Sustainability Statements that is free from material misstatements, even caused by frauds or not-intentional behaviors or events. The Management is also responsible for defining the Saipem Group's commitments regarding the sustainability performance and for the reporting of the achieved results, as well as for the identification of the stakeholders and of the significant matters to report.

Auditors' responsibility

It is our responsibility the preparation of this report on the basis of the procedures carried out. Our work has been conducted in accordance with the criteria established by the principle "International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000"), issued by the International Auditing and Assurance Standards Board for the engagements that consist in a limited assurance. This principle requires the respect of relevant ethical principles, including those related to independence, as well as the planning and the execution of our work in order to obtain a limited assurance that the Sustainability Statements is free from material misstatements. These procedures included inquiries, primarily with company's personnel responsible for the preparation of the information included in the Sustainability Statements, documents analysis, recalculations and in other procedures in order to obtain evidences considered appropriate.

The procedures performed are summarized below:

- a. Comparison of the economic and financial data and information included in the Sustainability Statements with those included in the Saipem Group's consolidated financial statements as of December 31, 2016 on which we issued our audit report, pursuant to art. 14 and 16 of Legislative Decree dated January 27, 2010, on April 3, 2017;

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- b. Analysis, through interviews, of the governance system and management process of the issues related to sustainable development regarding Saipem Group's strategy and operations;
- c. Analysis of the process relating to the definition of material aspects included in the Sustainability Statements, with reference to the identification modalities in terms of their priority for the different stakeholders' categories and to the internal validation of the process outcome;
- d. Analysis of the operation of the processes that support the generation, recording and management of the quantitative data reported in the Sustainability Statements. In particular, we have carried out the following procedures:
 - interviews and discussions with personnel of the Management of Saipem S.p.A. to obtain an understanding about the information, accounting and reporting system in use for the preparation of the Sustainability Statements, as well as about the internal control processes and procedures supporting the collection, aggregation, data processing and transmission of data and information to the department responsible for preparation of the Sustainability Statements;
 - on-site verifications at Saipem Global Petroproject Services AG (Zurich, Switzerland) and on the vessel Saipem 7000;
 - analysis on a sample basis of the documentation supporting the compilation of the Sustainability Statements, in order to confirm the processes in use, their adequacy and the operation of the internal control for the correct reliability of data and information in relation to the objectives described in the Sustainability Statements;
- e. Analysis of the compliance and internal consistency of the qualitative information included in the Sustainability Statements to the principles identified in paragraph "Management's responsibility on Sustainability Statements" of the present report;
- f. Analysis of the process relating to the stakeholders engagement, with reference to the procedures applied, through the review of summary minutes or any other existing documentation relating to the main topics emerged from discussions with them;
- g. Obtaining of the representation letter, signed by the legal representative of Saipem S.p.A., relating to the compliance of the Sustainability Statements with the principles indicated in paragraph "Management's responsibility on Sustainability Statements", as well as to the reliability and completeness of the information and data presented in the Sustainability Statements.

Our examination has entailed a lower extension of work compared to the work to be performed for a reasonable assurance engagement in accordance with ISAE 3000 and, as consequence, we may not have become aware of all the significant events and circumstances which we could have identified had we performed a reasonable assurance engagement.



Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the "Sustainability Statements 2016" included in the "Annual Report 2016" of Saipem Group as of December 31, 2016 is not in compliance, in all material aspects, with the reporting principles stated in the paragraph "Methodology, criteria and reporting principles" of the Sustainability Statements.

Milan, April 3, 2017

EY S.p.A.
Signed by: Pietro Carena, Partner

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

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Società per Azioni
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No. 00825790157

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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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