

ANNUAL REPORT 2019



MISSION

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

OUR VALUES

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

Disclaimer

By their nature, forward-looking statements are subject to risk and uncertainty since they are dependent upon circumstances which should or are considered likely to occur in the future and are outside of the Group's control. These include, but are not limited to: 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), the recent Coronavirus outbreak (including its impact across our business, worldwide operations and supply chain); in addition to changes in stakeholders' expectations and other changes affecting business conditions.

Actual results could therefore differ materially from the forward-looking statements.

The financial reports contain in-depth analyses of some of the aforementioned risks.

Forward-looking statements are to be considered in the context of the date of their release. Saipem SpA is under no obligation to review, update or correct them subsequently, except where this is a mandatory requirement of the applicable legislation.

COUNTRIES IN WHICH SAIPEM OPERATES

EUROPE

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

AMERICAS

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

CIS

Azerbaijan, Georgia, Kazakhstan, Russia

AFRICA

Algeria, Angola, Congo, Egypt, Ghana, Libya, Mauritania, Morocco, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tunisia, Uganda

MIDDLE EAST

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

FAR EAST AND OCEANIA

Australia, China, India, Indonesia, Japan, Malaysia, Pakistan, Singapore, South Korea, Taiwan, Thailand, Vietnam

BOARD OF DIRECTORS AND STATUTORY AUDITORS OF SAIPEM SpA

BOARD OF DIRECTORS¹

Chairman

Francesco Caio

Chief Executive Officer (CEO)

Stefano Cao

Directors

Maria Elena Cappello, Claudia Carloni, Paolo Fumagalli, Federico Ferro-Luzzi, Ines Mazzilli, Pierfrancesco Latini³, Alessandra Ferone⁴, Paul Schapira

BOARD OF STATUTORY AUDITORS²

Chairman

Mario Busso

Statutory Auditors

Giulia De Martino

Riccardo Perotta

Alternate Statutory Auditors

Francesca Michela Maurelli

Maria Francesca Talamonti

INDEPENDENT AUDITORS

KPMG SpA⁵

(1) Appointed by the Shareholders' Meeting on May 3, 2018, for 2018, 2019, and 2020 and in any case up to the date of the Shareholders' Meeting to approve the financial statements as at December 31, 2020.

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

(3) Left office on December 23, 2019, effective from the appointment of a new replacement Director by the Board of Directors of Saipem, pursuant to art. 2386 of the Italian Civil Code (February 5, 2020).

(4) Appointed by co-optation as Director by a resolution of the Board of Directors on February 5, 2020.

(5) The Shareholders' Meeting of May 3, 2018 resolved to appoint KPMG SpA as the independent auditors from 2019 to 2027.

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Ordinary Shareholders' Meeting of April 29, 2020

Notice of the Shareholders' Meeting was published on the Company website and an excerpt was published in the daily newspaper Il Sole 24 Ore on March 19, 2020. Please note that the date, place, participation, voting and/or occurrence of the Shareholders' Meeting as indicated in the notice of meeting is subject to the provisions of current legislation or those issued by the competent Authorities vis-à-vis the COVID-19 emergency, as well as the fundamental principles safeguarding the health of shareholders, employees, representatives, and consultants of the Company. Any changes will be promptly communicated using the same methods used for the publication of the notice and/or through the information channels provided for by the legislation in force.

Owing to the COVID-19 health emergency and in compliance with Article 106 of Law-Decree No. 18 dated March 17, 2020 aimed at minimising travel and gatherings, attending and voting at the Shareholders' Meeting can only occur through the granting of a specific proxy to the designated representative (Avv. Dario Trevisan) as per the instructions given in the notice.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

2019 has been a turning point. We have achieved positive results, a sign that the process of profound change started in 2015 has transformed Saipem into a new company, capable of creating value and facing evolving and challenging market scenario in the energy sector.

Saipem has traditionally considered itself a service provider in the Oil&Gas sector. The 2014 crisis in the oil sector, together with energy transition and a deeper strategic re-thinking started in 2015, made this definition too restrictive, having started such a profound transformation.

Such change process was based on the five strategic pillars which involved, in different phases, all areas of your Company: from refocusing and de-risking of the business portfolio, to the review of processes, to a new divisional organisation model, that in 2018 provided broad operational autonomy to the divisions, to cost optimisation, to debt reduction and financial discipline, all accompanied by a continuous devotion to technology and innovation. Saipem has now changed its skin and has adopted a new business model, based on its distinctive characteristics: the ability to manage complexity in challenging contexts, engineering excellence, a global DNA and the ingenuity of passionate women and men.

Your Company today is more flexible and adaptable to the continuous evolving market scenarios, that will certainly characterise the coming years. It became evident that, regardless of the energy mix of the future, it is possible to identify measures to meet the needs of the new world, to engineer new proposals, innovate and modernise the organisation and corporate culture in order to manage change. A diversified offer, the competencies and a distinctive culture have been our heritage of over 60 years and will unlock new opportunities in traditional sectors, in the transition and in other infrastructural sectors with a high technical and technological content.

To seize the opportunities in this new scenario remaining competitive, Saipem has strengthened its efforts towards sustainability of its backlog, growing significantly in non-oil sectors, such as gas and LNG (Liquefied Natural Gas), and focusing on clean technologies and decarbonisation, as well as digitalising its way of operating.

The new organisation was the starting point for implementing a diversified strategy for each division.

In addition to traditional markets (conventional and subsea developments), the Offshore E&C Division is becoming a point of reference for the development of offshore wind farms, particularly where engineering, construction and installation are integrated. Such diversification leverages on execution skills and gives the opportunity to use in synergy the offshore construction fleet in this new context.

In the Onshore E&C business, gas and renewables will be the main drivers of the backlog expansion towards decarbonisation, together with increasing operational efficiency.

The ability to innovate is in Saipem's DNA and has allowed to push forward the boundaries of technology over the years. The greatest challenge, in common with clients, is developing onshore and offshore projects reducing costs, time and with more sustainable solutions. Your Company is evolving from a service provider into a global solution provider in the energy sector, able to co-develop solutions and innovations capable of creating value throughout the project cycle from early engagement and throughout the whole life of the infrastructure.

Efforts over the last few years to achieve solid economic and financial stability have allowed to beat all targets set for 2019 and 2019 results, up on those of 2018, well represent this trend.

Net debt fell below €500 million, compared to around €1.2 billion in 2018; revenues were over €9 billion, the adjusted EBITDA margin above 11% together with an improvement in the adjusted net profit.

The deep organisational and managerial transformation and the strategic orientation aimed at anticipating the energy transition have allowed us to be awarded an outstanding level of new contracts worth approximately €20 billion, with significant awards in the energy transition segments such as LNG projects and offshore renewables, achieving a record backlog of €25 billion. All divisions contributed to this achievement with solid performances, in particular: the Offshore Engineering & Construction Division showed strong operating performance during the year; in the Onshore Engineering & Construction Division, the turnaround continued successfully with an improvement in margins, and the Offshore and Onshore Drilling divisions recorded growing volumes and margins in line with the market conditions.



Results for 2019

The value of new contracts, €17,633 million, has more than doubled compared to 2018, thanks to significant acquisitions of new projects, mainly in the Middle East, the North Sea and in Latin America. Backlog at the end of 2019 stood at €21,153 million. This does not include joint venture contracts for an additional €3,625 million. The trend in net debt reduction also continued: the net financial position at the end of 2019 stood at €472 million, compared to €1,159 million at the end of 2018. This significant reduction was due to advance payments received for new project acquisitions in 2019, the rescheduling of certain investments, the proceeds from the conclusion of arbitrations during the year and the positive contribution from the collection of overdue credits. Capital expenditure in 2019 amounted to €336 million (€485 million in 2018, inclusive of the purchase of the vessel Saipem Constellation) and concerns mainly asset maintenance and upgrading.

Sustainability and technology

Saipem has always had a deep-rooted vocation to generate sustainable value for stakeholders, primarily by giving a key role to people, health and safety, expertise, the ability to attract new talents, the development of local resources and the supply chain for the social and economic growth of the local communities.

In 2018, your Company was one of the first Italian companies to achieve the ISO 37001 "Anti-corruption Management Systems" International Certificate: this is the result of a commitment to continuous progress in the business ethics.

Following the recommendation of the Task Force on Financial Reporting linked to climate change, in 2019 Saipem published the second annual report "Climate: from strategy to action", which provides the stakeholders with information on the scenario analyses, strategies, measures and tools for a more sustainable business. In 2020, the Company's sustainability strategies, programmes, objectives and performances have been detailed in two documents: the Sustainability Report "Making change possible" and the "Consolidated Non-Financial Statement", a specific section of the Directors' Report, pursuant to Legislative Decree No. 254/2016. Both documents are subject to audit and have been prepared in accordance with the most advanced international standards.

This vision, founded on business sustainability, has improved the appreciation of your Company's by financial stakeholders and international analysts, who have confirmed Saipem's inclusion among the industry leaders in the sustainability indexes, such as the Dow Jones Sustainability Index and the FTSE4Good Index.

Technology and the ability to innovate, play a key role in a long-term and more sustainable vision, to help reducing the carbon footprint along the entire value chain. Saipem's commitment is aimed at the evolutionary development of conventional projects' technologies, the digitalisation of processes and operations, subsea robotics and carbon capture and sequestration. Efforts are also devoted to more disruptive technologies and solutions for the exploitation of renewables.

The process aimed at constantly improving people's health and safety standards, the essence of Saipem's way to operate has continued. Unfortunately, three fatal accidents occurred in 2019 involving Saipem's personnel in Chile, Azerbaijan and Saudi Arabia. Applying to international procedures and best practices, in-depth investigations were carried out on these events; and the specific corrective measures were identified and adopted.

In terms of statistical indicators, the LTIFR - Lost Time Injury Frequency Rate stood at 0.22, recording a slight increase compared to 2018.

The market scenario

2019 has continued to record high oil price volatility and restrained level of new investments, particularly in the offshore and drilling sectors. Conversely, there has been a significant wave of investments in new LNG developments.

In a market scenario still characterised by strong uncertainty on the economical and financial perspective and political instability in various regions of the world, with impacts on oil and gas demand and prices, the weak signs of recovery in the sector did not yet translate into a significant acceleration of investments in exploration and production by the oil companies, except for some opportunities in specific geographical areas. In this context, exceptions have been investments in segments associated with energy transition, such as gas and renewables, or countercyclical ones, such as downstream.



However, in the first months of 2020, macroeconomic factors regained attention, with concerns related to the spread of COVID-19 negatively impacting economic growth expectations and financial markets. Recent turbulence in the oil price at the beginning of March, the outcome of the OPEC meeting in early March and Saudi Arabia's decision to increase production, combined with the effects of the Coronavirus epidemic have caused the oil price to drastically fall down and Saipem's share price was dragged too downward, together with the whole sector.

The continuation of low oil prices could substantially affect future investments decisions by oil companies. Saipem operates mainly as a global solutions provider in the engineering and construction (E&C), as well as drilling solutions and it is exposed to the future clients' investment decisions in various segments ranging from oil, gas, renewables and infrastructure.

Saipem has launched its analysis, which is still ongoing, on the possible effects of COVID-19 outbreak, in terms of the evolution of the reference scenario, management of relations with clients and partners, impacts on projects execution, and on operations in construction yards and vessels, due to changes in the availability of internal and external resources and/or to other circumstances directly or indirectly related to the pandemic, and on the levels of performance and continuity of service by suppliers, subcontractors and partners, as detailed in the section "Events subsequent to year-end" in the Directors' Report.

The ongoing Coronavirus pandemic makes the current market scenario highly uncertain: from financial markets to the real economy, with impacts that cannot be foreseen at the moment and could potentially significantly impact the Group's future commercial and operating activities.

Saipem is duly following instructions by the institutions, with the priority to protect the health and safety of people, implementing extraordinary measures, currently in place, to contain the spread of the virus. Context is extremely complex and Saipem's ability to react immediately while maintaining business continuity, attitude to manage and operate in crisis situations and the ability to implement smart working for personnel, already widely used by the Company under normal conditions do constitute key assets in this moment.

The evolution and analysis of the various scenarios lead to the conclusion that the energy mix of the future will be dominated by gas and renewables, while coal and oil will play a decreasing role. The energy transition will be a gradual process and will take over the next two or three decades. However, the pace of this process can also be influenced by the implementation of environmental and regulatory policies. The long-term scenario depicts an evolving world, in which a mosaic of forces co-operate towards an increasingly decarbonised economy. Climate-related policies and the availability of green technologies, as a viable alternative to fossil fuels, especially coal, are having a significant impact on renewable energy production. In addition, the current trend towards tertiarization and the improvements in digitalisation across various sectors are expected to be drivers of both energy efficiency and productivity. The commitment to diversify the generation mix is encouraging large-scale investments in renewable energy in all geographical areas.

Guidance 2020

The Board of Directors, on March 12, 2020, resolved to propose to the Shareholders' Meeting the distribution of an ordinary dividend of €0.01 per ordinary and savings share.

At year end, the record backlog level, combined with good visibility in the short-term on current commercial tenders, underpin revenues at around €10 billion, with an adjusted EBITDA above €1.1 billion (post-IFRS 16). Capital expenditure is expected to increase to around €600 million, also considering the postponement of some 2019 initiatives and activities.

The evolution and persistence of the epidemic around the world could have non-quantifiable and significant effects on the commercial and operational activities and consequently on the Group's economic and financial position.

The Company is working to quantify the relevant impacts and, only following this analysis, it will be in the conditions to review the annual estimate forecasts and to reschedule the timing for the verification and the possible re-elaboration of the Strategic Plan.

Thanks to the ingenuity that is a distinctive genetic heritage, Saipem is today ready for the future.

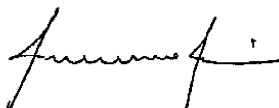
Technology, innovation and human capital will play a fundamental role. Saipem will be more and more global, inclusive and oriented towards new technologies to make a difference in the energy transition, driving, in a sustainable way, the path towards the 2050. Innovation also implies a change the way of thinking to modernise, simplify and make the Company more integrated and inclusive.

All our appreciation goes to Saipem's women and men, for their passion, the quality and commitment, without which Saipem could not have overcome these complex years of profound transformation and achieve the results that make us proud today and confident, despite of the actual scenario, to always be able to face new challenges.

April 6, 2020

On behalf of the Board of Directors

The Chairman
Francesco Caio

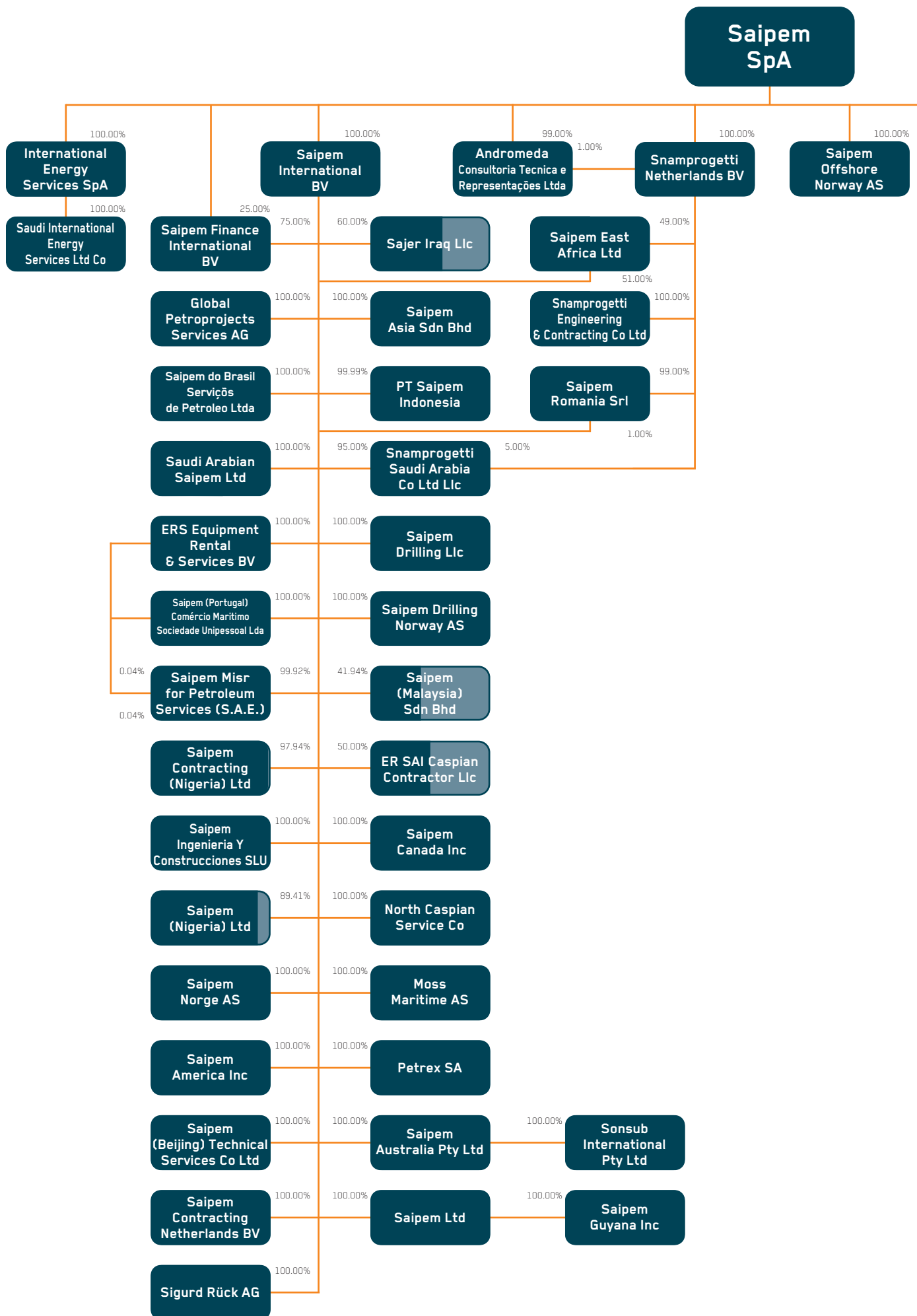


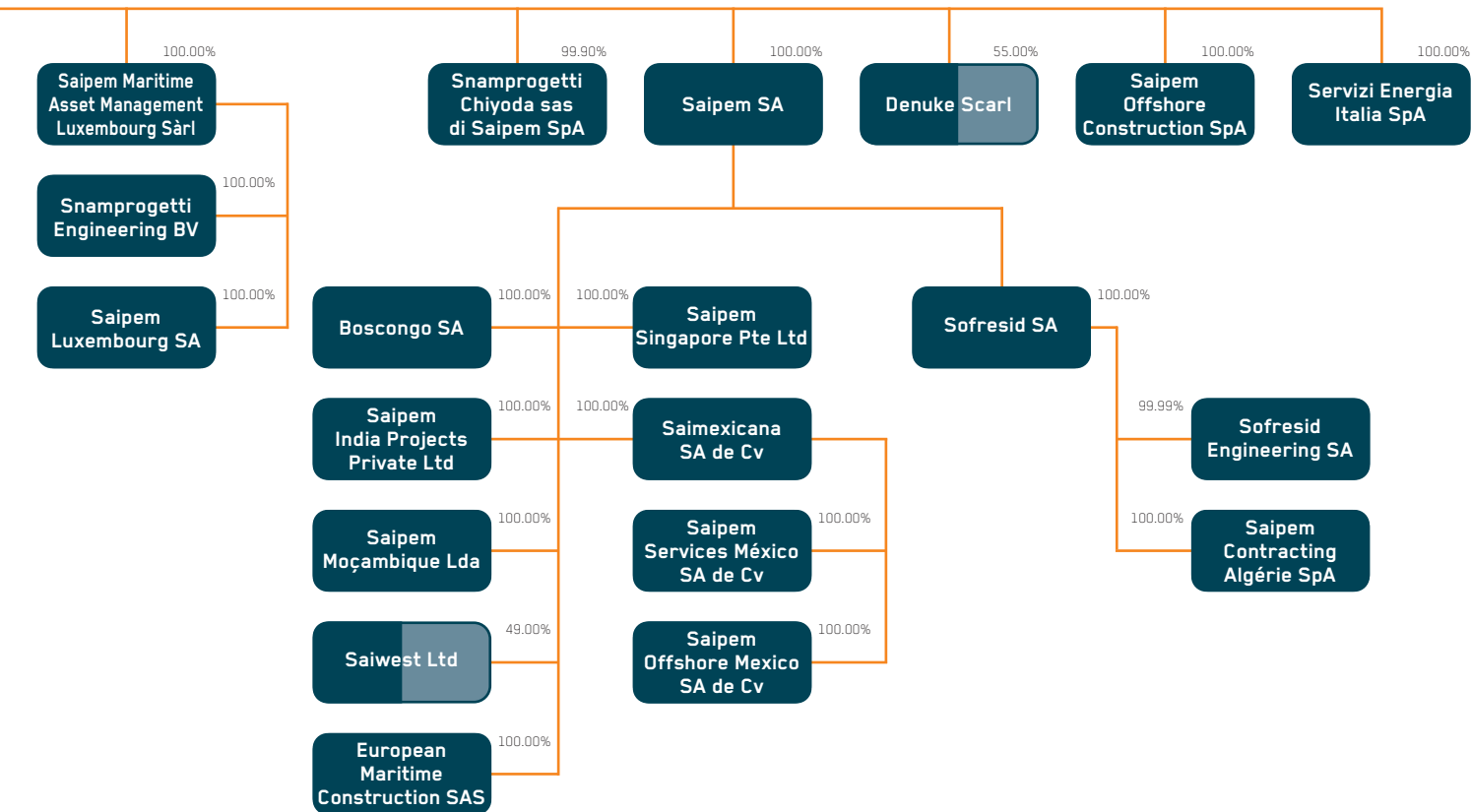
The Chief Executive Officer (CEO)
Stefano Cao



STRUCTURE OF THE SAIPEM GROUP

(subsidiaries)





The chart only shows subsidiaries

DIRECTORS' REPORT

SAIPEM SpA SHARE PERFORMANCE

During 2019, a year characterised by high price volatility, the prices of Saipem ordinary shares with Borsa Italiana increased by 35%, beating the main reference indices.

At the same time the American industry index, OSX, which includes service companies in the oil industry, decreased by 5%, while the FTSE MIB index, the largest Italian securities list, recorded an increase of 28%.

The Saipem share opened 2019 in solid recovery on the international financial markets, which reversed their course when compared to the downward trend that began in the autumn of 2018, caused mainly by trade tensions between the United States, China and Russia. The share recorded its lowest price of the period at €3.22, on January 2, the first day of trading, to then undertake a solid recovery supported by the awarding of a series of important contracts.

The presentation of the annual results for 2018, at the end of February, and the expectations of an improvement in the prospects of the energy services sector, in particular a major increase in the demand for liquefied natural gas in the coming years, contribute to supporting Saipem shares, which reached the year's peak on April 8, almost reaching €5 and closing at €4.99. Subsequently, the upswing of the international stock markets reversed and greater prudence prevailed about the prospects of the global economy; even the Saipem share, in line with shares in the reference sector, was dragged down during the downward trend to €3.84 on May 31.

At the beginning of June the trend changed again. Concern over macroeconomic prospects seemed to gradually return and the international stock markets marked a recovery. The news of the award to Saipem's

Onshore Engineering & Construction Division of the \$6 billion contract for the Anadarko LNG project in Mozambique reinvigorated the share's trend, which rose again to €4.62 on July 26, driven by the presentation of good six-monthly results and the improvement of the 2019 guidance on the net debt. In August yet another reversal in the trend was recorded on international financial markets, which feared the negative effects of the mutual imposition of trade tariffs between the United States and China on the global economy. Oil prices fell sharply, taking the entire oil services sector with it.

The speculation on possible extraordinary mergers and acquisitions in the oil services sector, also triggered by the announcement, at the end of August, of a plan for the demerger of a competitor into two separate companies, support the share prices in this sector. The Saipem share reversed its trend, returning to mid-July levels and reaching €4.68 on September 16, also due to the effects on the sector of the attack on production plants in Saudi Arabia, which led to fears of a reduction in the supply of crude oil on the international markets, though these fears subsided quickly.

In the last quarter of the year, the US Central Bank's expansion policies brought optimism with regard to the macro-economic scenario, with an overall improvement in the sentiment throughout international markets, even though some volatility remains. Saipem shares benefited from the strong operating trends in the third quarter and the significant acquisition of new contracts, and on October 24, when the quarterly results were published, they recorded an increase of over 4%, bringing the share to €4.21.

The share remained well over the €4 mark for the entire last quarter of the year; in particular, it was supported by

Key Stock Exchange indices and figures

		Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2019
Share capital	(€)	441,410,900	2,191,384,693	2,191,384,693	2,191,384,693	2,191,384,693
Number of ordinary shares		441,301,574	10,109,668,270	1,010,966,841	1,010,966,841	1,010,966,841
Number of savings shares		109,326	106,126	10,598	10,598	10,598
Market capitalisation	(€ million)	3,324	5,419	3,872	3,286	4,408
Gross unitary dividend:						
- ordinary shares	(€)	-	-	-	-	0.01
Price/earning ratio per share: ⁽¹⁾						
- ordinary shares	(€)	367.32
Price/cash flow ratio per share: ⁽¹⁾						
- ordinary shares	(€)	21.58	16.88	9.49	9.69	6.28
Adjusted price/earning ratio per share:						
- ordinary shares	(€)	..	23.98	84.17	131.43	26.71
Price/adjusted cash flow ratio per share:						
- ordinary shares	(€)	13.09	5.95	6.79	6.66	5.64

(1) Figures pertain to the consolidated financial statements.

a significant acquisition of new contracts in the offshore windfarm sector, recording an increase of 5.6% in December alone and closing the year at €4.36. Saipem's market capitalisation at the end of December was approximately €4.4 billion. In terms of share liquidity, shares traded during the year totalled slightly more than 2 billion (2.8 billion registered in the previous year). The average number of shares traded daily for the period totalled 8.1 million, compared to the 11.2

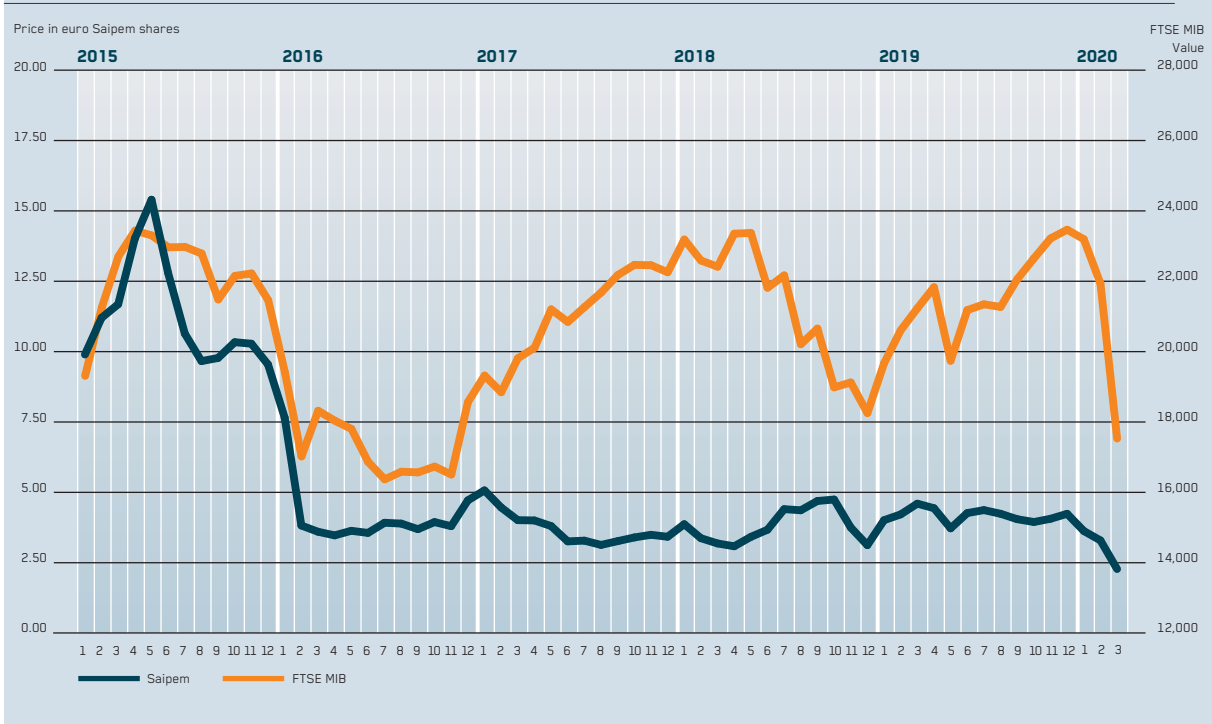
million in the same period of the previous year. The value of shares traded amounted to €8.8 billion, compared to the €11.2 billion recorded in 2018. At the end of December 2019, there were 10,598 savings shares, which were convertible at par with ordinary shares. Their value, affected by the very poor liquidity, recorded only minor fluctuations during the year, from a share price of €40.0 at the beginning of the period to €42.0 at the end of the period.

Prices on the Milan Stock Exchange

(€)	2015	2016	2017	2018	2019
Ordinary shares:					
- maximum	16.06	9.17	5.65	5.43	4.99
- minimum	8.94	3.02	2.96	3.10	3.22
- average	11.33	4.23	3.83	3.98	4.29
- year end	9.47	5.36	3.83	3.25	4.36
Savings shares:					
- maximum	110.71	62.00	60.00	41.80	44.20
- minimum	58.27	39.00	40.00	40.00	40.00
- average	96.28	57.17	46.13	40.27	41.43
- year end	58.27	54.10	40.00	40.00	42.00

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

SAIPEM AND FTSE MIB - AVERAGE MONTHLY PRICES JANUARY 2015-MARCH 2020



OPERATING REVIEW

Organisational structure

Following the change in the organisational model, from 2018 the new strategic orientation for the Company is the following:

- the Offshore Engineering & Construction business was identified as the “core” business with the objective of maintain and re-enforcing the leadership position, even through the use of targeted investments;
- the Onshore Engineering & Construction business is focused on completing turnaround, aimed at recovering profitability, even through a repositioning of the portfolio;
- for both Onshore and Offshore Drilling, efforts toward increasing efficiency continued and strategic options were assessed with the goal of maximising value of the individual businesses.

Saipem is a leading group in the areas of engineering, procurement and construction of large-scale projects in the energy and infrastructure industries. Saipem is divided into five business divisions: Offshore Engineering & Construction, Onshore Engineering & Construction, Offshore Drilling, Onshore Drilling and XSIGHT. The process of divisionalisation, which concluded in December 2018, gave the divisions full autonomy, specifically with regard to sales, project execution, technology and Research and Development, business strategies, partnerships, etc. The Offshore Engineering & Construction Division is a leader in offshore construction, strongly oriented towards the Oil&Gas operations in remote areas and deep water. It provides support to clients from the earliest phases of a project and throughout the entire development process. It offers a wide range of products and services, among which are: platforms, pipelines, undersea field development and MMO (Maintenance, Modification and Operation), to which we must add decommissioning and renewables in the form of windfarms.

The Onshore Engineering & Construction Division designs and builds plants, pipelines, pumping stations, compressor stations and terminals. It provides a complete range of integrated engineering, procurement, project management and construction services, mainly aimed at the oil industry, large-scale civic and maritime infrastructures and environmental operations.

The Offshore Drilling Division is an international contractor, offering offshore drilling services with all types of drilling rigs in every geographic area.

The Onshore Drilling Division operates in the Oil&Gas industry as an international contractor, offering onshore drilling services with all types of drilling rigs in every geographic area.

XSIGHT is a Saipem Group start-up. It provides state of the art, high value and highly innovative services to the entire Energy industry, including renewables and green energy. XSIGHT Division works to improve the

efficiency of engineering services through simplified processes and innovative digitalisation models.

In addition to engineering, it offers a wide range of services: financial development, consulting, stakeholder and risk management. The results of the XSIGHT Division are included in the Onshore Engineering & Construction Division because the numbers still do not warrant separate disclosure, so they are not disclosed to the market separately.

Market conditions

After a period of strong growth in 2016 and 2017, in 2018 and above all in 2019 the global economy recorded a slowdown, with global gross domestic product growing by 3%, down on the 3.6% recorded in 2018 and the 3.8% in 2017. At regional level, the greatest economic slowdowns were recorded in the Middle East, Latin America, and in the Euro area. In South America the Venezuelan crisis, the Argentinian crisis, the political instability in Bolivia and the Chilean governmental crisis and consequent popular revolt are particularly worth mentioning. Tensions and war continue to afflict the Middle East, with Iran's increasingly conflicting positions towards both the United States and Saudi Arabia, where, in addition to this, the conflict with Yemen is still ongoing. The tense commercial relations between the United States and China and the continuing sanctions imposed on Iran have also contributed to the downturn in economic growth. In Asia, the emerging markets continue to drive world growth, however here also a slowdown was recorded in 2019, particularly in China following the reduction in domestic investments and exports towards the United States, and in India.

During 2019, the average price of oil was around \$64/barrel, a decrease compared to the \$71/barrel reached in 2018. The cuts in production decided by the OPEC alliance did not balance the excess supply of hydrocarbons on the market, and this was reflected in the price in 2019, which was on average lower than the previous year. The oil price situation at the end of 2019 should be considered above the profitability threshold for most of the projects currently being studied, despite persistent delays in making the final investment decisions.

The level of investment in exploration and production, for 2019 increased in volume compared to the previous year, in line with the positive trend which began in 2016. North America, which in recent years has driven investment growth, in particular in non-conventional developments in the onshore market, recorded a stable expenditure for 2019 was stable compared to the previous year. Contrary to this, recording increased investments compared to the previous year, Asia-Pacific, Africa and Latin America

are contributing more to global growth. At the same time, other nearby markets including renewables, are becoming increasingly important in the energy field, with a rapid growth in investments above all in the wind and solar sectors.

Following a period of strong market decline started in the second half of 2014, the main companies in the hydrocarbon sector had, in order to remain competitive, to adapt to an industrial context characterised by lower volumes, promoting a strategy of cost reduction and downsizing. In a number of cases restructuring programmes have been implemented, strengthening their financial structure and diversifying businesses, also beyond the Oil&Gas market. Several operators in the Onshore Engineering & Construction segment have reported operational difficulties on specific projects while the situation of heavy financial indebtedness is a continuing problem for many operators in the Onshore and Offshore Drilling sector.

New contracts and backlog

New contracts awarded to the Saipem Group during 2019 amounted to €17,633 million (€8,753 million in 2018).

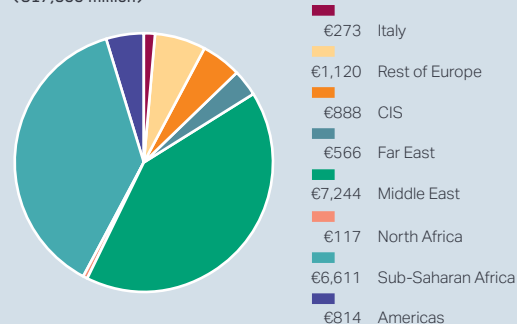
25% of all contracts awarded were in the Offshore Engineering & Construction sector, 62% in the Onshore Engineering & Construction sector, 3% in the Offshore Drilling sector and 10% in the Onshore Drilling sector.

New contracts to be carried out abroad made up 98%. Contracts awarded by Eni Group companies were 4% of the overall figure. Orders awarded to Saipem SpA amounted to 9% of the total.

New contracts awarded to non-consolidated companies amounted to €3,625 million; the total amount of contracts awarded reach €19,747 million. The order backlog at December 31, 2019 amounted to €21,153 million (€12,619 million at December 31,

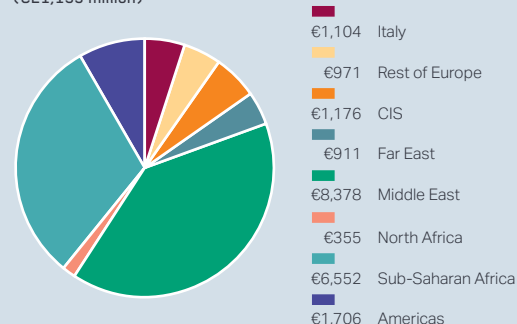
NEW CONTRACTS BY GEOGRAPHIC AREA

(€17,633 million)



ORDER BACKLOG BY GEOGRAPHIC AREA

(€21,153 million)



2018), of which €7,532 million is to be executed in 2020 (€2,899 million in the Offshore Engineering & Construction sector, €3,796 million in the Onshore Engineering & Construction sector, €410 million in Offshore Drilling and €427 million in Onshore Drilling). The breakdown of the backlog by sector is as follows: 27% in the Offshore Engineering & Construction sector, 62% in the Onshore Engineering & Construction sector, 3% in Offshore Drilling and 8% in Onshore Drilling.

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

€ million)	2018		2019	
	Amount	%	Amount	%
Saipem SpA	3,182	36	1,567	9
Group companies	5,571	64	16,066	91
Total	8,753	100	17,633	100
Offshore Engineering & Construction	4,189	48	4,471	25
Onshore Engineering & Construction	4,085	46	10,849	62
Offshore Drilling	234	3	576	3
Onshore Drilling	245	3	1,737	10
Total	8,753	100	17,633	100
Italy	1,117	13	272	2
Outside Italy	7,636	87	17,361	98
Total	8,753	100	17,633	100
Eni Group	557	6	656	4
Third parties	8,196	94	16,977	96
Total	8,753	100	17,633	100

Saipem Group - Backlog as at December 31

(€ million)	2018		2019	
	Amount	%	Amount	%
Saipem SpA	4,877	39	3,703	18
Group companies	7,742	61	17,450	82
Total	12,619	100	21,153	100
Offshore Engineering & Construction	4,981	39	5,611	27
Onshore Engineering & Construction	6,323	50	13,007	62
Offshore Drilling	716	6	737	3
Onshore Drilling	599	5	1,798	8
Total	12,619	100	21,153	100
Italy	1,202	10	1,105	5
Outside Italy	11,417	90	20,048	95
Total	12,619	100	21,153	100
Eni Group	488	4	418	2
Third parties	12,131	96	20,735	98
Total	12,619	100	21,153	100

95% of orders were on behalf of overseas clients, while orders from Eni Group companies represented 2% of the overall backlog. Saipem SpA accounted for 18% of the total order backlog.

The order backlog including non-consolidated companies was €24,778 million (€14,463 million at December 31, 2018).

Capital expenditure

Capital expenditure in 2019 amounted to €336 million (€485 million in 2018) and mainly related to:

- €144 million in the Offshore Engineering & Construction sector: for class reinstatement works

on the vessel Saipem Constellation and upgrading of the S7000 and upgrading of the existing assets;

- €22 million in the Onshore Engineering & Construction sector: purchase and maintenance of equipment;
- €86 million in the Offshore Drilling sector: upgrading of the drillship Saipem 12000 for the purchase of the second BOP and class reinstatement works, in addition to maintenance and upgrading of the fleet vessels;
- €84 million in the Onshore Drilling: upgrading of rigs for operations in Saudi Arabia and South America, as well as the maintenance and upgrading of the existing rigs.

The following table provides a breakdown of capital expenditure in 2019:

Capital expenditure

(€ million)	2018	2019
Saipem SpA	58	62
Other Group companies	426	274
Total	485	336
Offshore Engineering & Construction	345	144
Onshore Engineering & Construction	28	22
Offshore Drilling	66	86
Onshore Drilling	46	84
Total	485	336

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

OFFSHORE ENGINEERING & CONSTRUCTION

General overview

The Offshore Engineering & Construction Division is a leading Global Solutions Provider in the energy industry, focused on offshore Oil & Non-Oil related developments. The division's core activities include the development of subsea infrastructures, pipelines, conventional fields, while it is also active in the renewables market as EPCI contractor for windfarms. We support our customers from the pre-FID (Final Investment Decision) phase to capital expenditure development, extending our services to the Life of Field, including maintenance, modification and operations, all the way through to the decommissioning of plants.

Saipem pursues this objective through a set of best-in-class enablers, among which engineering and project management expertise, a strong technological and innovative approach, an established local presence in strategic markets with fabrication yards in Nigeria, Angola, Brazil and Indonesia, an advanced and comprehensive fleet sized to execute a wide span of projects in the most diverse operational and environmental conditions, a suite of products complementing our offer in both core and renewable markets.

The division's technology portfolio includes several alternative solutions, from subsea robotics to subsea processing, such as the new generation of resident and autonomous ROV platforms Hydrone, or the subsea water treatment and injections system SPRINGS, developed with Total and Veolia. In addition, the Offshore Engineering & Construction Division continuously endeavours to improve production processes, enhance material and welding technologies (e.g. Internal Plasma Welding for clad pipes), as well as foster automation and digitalisation. Saipem also implements its innovation and creative attitude in the development of breakthrough designs, such as Hexafloat the novel floating windfarm substructure. The division employs all of the above resources in the relentless search for the highest level of safety for people and the environment, in the interest of all its stakeholders.

The Offshore Engineering & Construction Division is pursuing an asset light model, hence it is actively managing its assets portfolio with the aim of tailoring its fleet to the needs of the strategic market pursued.

Saipem serves the subsea market through highly versatile vessels, such as the top class FDS 2 and the FDS. The first vessel is a 183-metre long, 32-metre wide mono-hull equipped with a cutting-edge class 3 Dynamic Positioning system (3 DP) 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. With its 1,000-tonne crane and two 750 and 500-tonne capstan winches, the FDS 2 is suited to even the most challenging deep-water projects. The second vessel, the FDS, is endowed with DP3 dynamic positioning, a 600-tonne lifting capacity crane and a pipelaying system capable of operating in water depths of over 2,000 metres.

The rigid reel-lay and subsea development vessel Saipem Constellation complements Saipem's capabilities in the subsea market. With its DP3 system, the Ice Class notation, the 800-tonne multilayering capabilities, the 3,000-tonne crane, the Saipem Constellation represents on one hand a unique "one-stop-shop" vessel to execute complex deep-water projects, and on the other hand she is endowed with the capabilities to serve the conventional market in a safe and reliable manner.

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

Saipem's fleet of vessels also includes the Saipem 7000 semi-submersible, which is equipped with a class 3 DP-system, has a 14,000-tonne lifting capacity and is capable of laying subsea pipelines in ultra-deep waters using the J-lay system, which can handle a suspended load of 1,450 tonnes during pipelay operations. Saipem 7000 represents a solid asset that has the capabilities to serve different markets, and is proving to be a reliable resource in executing diverse decommissioning and offshore windfarm projects. In addition to the above, the division manages some strategic assets, both owned or leased, that allow an additional flexibility in the management of our portfolio of opportunities.

These include, among others, the Saipem 3000, which is capable of laying flexible pipelines, umbilicals and mooring systems in deep-waters up to 3,000 metres, as well as installing structures of up to 2,200 tonnes; the Normand Maximus, a leased vessel used for underwater installation and laying of umbilicals and flexible lines, thanks to the 900-tonne crane that has a vertical lay tower with a tensioning capacity of 550 tonnes; the DeHe, a dynamically positioned vessel equipped with anchors for laying pipes and a crane

with a lifting capacity of up to 5,000 tonnes, capable of deep water installations up to depths of 3,000 metres.

Market conditions

During 2019, market conditions for Oil&Gas developments have still proven to be challenging, with few signs of recovery. The number of final investment decisions oil companies took over the year was substantially the same as the previous one, albeit with a greater commitment in the expenditure amounts, thanks to the massive developments in Middle East. The competitive environment remains very tough, being characterised by excessive supply that translates into competitive pricing dynamics on one side, and in an increased earlier engagement of resources and assets, mainly through competitive FEEDs undertaken in advance of final investment decisions. In addition, our clients are increasingly interested in trying different contracting models, such as integrated EPCI of subsea equipment and SURF, in the search of cost optimisation, reduction of time to first oil and derisking.

West Africa still presents some uncertainty in key countries, such as Nigeria, where exogenous factors negatively affect the pace of investments, or Angola, where there is intense commercial activity mainly related to tieback to existing facilities, as a development model offering better return profiles to our clients in the country. This situation is only partially offset by the emergence of the new oil regions in West Africa, particularly Senegal and Mauritania and, notably, the reach of full speed activities in Mozambique. The number of prospects is ramping up in Brazil, where Petrobras, together with and supported by other majors, is building up a pipeline of deepwater opportunities that contribute to reestablishment of a predominant role of the country for the subsea market.

The volume of orders in the Middle East has reached new highs, first of all because of the massive investment plan in Saudi Arabia aimed at the expansion of the already producing fields, and the development of new ones, and with the prospects in United Arab Emirates and Qatar, for their renewed ambitions to grow their production, sustained also by foreign Oil&Gas companies walking their path through energy transition thanks to the big gas developments in the two countries. The level of investment in Northern Europe is still lethargic, as the industry is reshaping itself after the crisis of the latest years, with oil majors diverting their efforts to offshore prospects, deemed more profitable, or even to North America shale. Notwithstanding the above, the region still proves to be an environment that stimulates the development of new technologies in the space of subsea processing, flow assurance, life of field.

The Asia-Pacific region is showing increasing opportunities in subsea and pipelines, Australia in primis, with emerging opportunities linked to the wave of new LNG developments or infill of existing liquefaction capacity.

In the Gulf of Mexico the developments are at the same levels of recent years focussing on subsea developments characterised by a high level of competitiveness. Guyana is becoming a fully fledged player of the oil industry, as deepwater developments are carried out and potential of the country is being confirmed by successful exploration activities.

The Mediterranean shows great potential in terms of development of infrastructures for the transportation of gas. The timing of such developments is necessarily very uncertain, as it is linked to macroeconomics and geopolitical factors.

The offshore wind market is going on with its steady growth: beyond Northern Europe, being nowadays a consolidated market, and Taiwan, ramping up with sizeable developments, Owners and Developers are showing an increasing interest in the US East Coast market where the industry still needs to shape itself around the peculiarities of the new market.

Capital expenditure

In the Offshore Engineering & Construction Division, investments for the year were mainly attributable to maintenance and upgrading of existing assets.

New contracts

The most significant contracts awarded to the Group during 2019 were:

- for Saudi Aramco, two new EPCI contracts as part of the ongoing Long-Term Agreement with the client, for the development of the Berri and Marjan offshore fields in the Persian Gulf. The works comprise engineering, procurement, construction and installation of subsea systems, the laying of pipelines, cables, umbilicals and related platforms;
- for BP, the EPCI Tortue project to be carried out as a joint venture with the French company Eiffage on the border of Mauritanian and Senegalese territorial waters, which comprises engineering, procurement, construction and installation of docking and mooring facilities;
- for ExxonMobil, the Payara development project located in the Stabroek block offshore Guyana at a water depth of around 2,000 metres. Subject to government approvals and project sanction, the contract scope includes detailed Engineering, Procurement, Construction, Installation (EPCI) of flowlines, rigid risers, associated terminations and jumpers together with the installation of manifolds, flexible risers, dynamic and static umbilicals and flying leads;
- for EDF Renewables, the construction of the Neart na Gaoithe (NnG) windfarm offshore Scotland, consisting of the engineering, procurement, construction and installation of steel foundation jackets, wind turbines, as well as the transportation and installation of the relevant topsides;
- additional works on offshore E&C contracts currently underway in Saudi Arabia, Azerbaijan and the North Sea.

Work performed

The biggest and most important projects underway or completed during 2019 were as follows.

In Saudi Arabia, for Saudi Aramco:

- > as part of the **Safanya** and **Marjan Zuluf** projects, offshore installation activities have been completed for the engineering, procurement, fabrication, transportation and installation of seven deck platforms, pipelines and cables in the Zuluf and Marjan fields;
- > offshore installation activities have been completed for the **19 jackets** project, which included engineering, procurement, manufacture, transport and installation of nineteen jackets;
- > activities have been completed for the **Abu Safah** contract, which involved the engineering, procurement, fabrication, transport, installation, hook-up and pre-commissioning phases of two jackets, two decks, flexible pipelines and composite cables in the field;
- > manufacturing and installation activities relating to **Manifa** for engineering, procurement, fabrication, transportation and installation of onshore/offshore pipelines with landfall have been completed;
- > engineering and procurement activities are continuing and fabrication has started for the **Berri (LTA-34)** and **Marjan (LTA-35)** project, which include engineering, procurement, construction and installation for new platforms, new wellhead platform decks, associated trunk line to shore, subsea pipelines and cables;
- > engineering and procurement have begun for the EPCI of Berri Downstream (**LTA-43**) project, which includes engineering, procurement, construction and installation of subsea and onshore pipelines.

Also in Saudi Arabia:

- > for Al Khafji Joint Operations (KJO), engineering and procurement activities are nearing completion, as well as further environmental studies allowing to start very soon the installation phase for the **Laying of New Hout Crude** contract, which includes the engineering, procurement, construction, installation and start-up phases of a new pipeline for the transportation of crude oil.

In Qatar, for Barzan, onshore operations are nearing completion and offshore installation activities are progressing for the **Barzan Novated Items & Pipeline** contract, which include the engineering, procurement, construction and installation phases relating to two export and interconnection pipelines, connecting elements between pipelines and various subsea structures.

In Guyana, for ExxonMobil:

- > pipelay and installation of subsea structures have been completed for the **Liza Phase 1** project, which includes the engineering, procurement, fabrication and installation of risers, flowlines, related structures and connections to develop the field located off the coast of Guyana at a depth of 1,800 metres. The contract also includes the transport and installation of umbilicals, foundations

and manifolds for water and gas injection wells and systems. Those have been installed with only few completion activities remaining to be performed onboard FPSO;

- > engineering, procurement and coating activities are nearing completion and fabrication activities are progressing for the **Liza Phase 2** project, which includes engineering, procurement, fabrication and installation of risers, umbilicals, manifolds, flowlines, well connections and related facilities for the development of the Liza field.

In the Gulf of Mexico:

- > for Pemex, in the framework of the project for the development of the **Lakach** field, operations are still suspended by the client. The project encompasses services of engineering, procurement, construction and installation of the system connecting the offshore field with the onshore gas conditioning plant, which may now be envisaged for 2021;
- > for Dragados Offshore de Mexico SA de Cv, operation activities have been completed for the **CA-KU-A1** project, which included the transportation and installation of a compression platform in the Gulf of Mexico.

In Indonesia, for BP Berau Ltd, the installation of offshore pipelines and platforms has been completed for the **Tangguh LNG Expansion** project, with rock dumping and commissioning nearing completion. The project provides for the installation of two unmanned platforms and subsea pipelines. Supply and yard preparation have begun for the fabrication of 32 jackets for Jan De Null for the **Formosa II** offshore windfarm in Taiwan.

In West Africa:

- > the project for Total Upstream Nigeria Ltd for the subsea development of the **Egina** field in Nigeria has been completed. The scope of work included engineering, procurement, fabrication, installation and pre-commissioning of subsea oil production and gas export pipelines, flexible jumpers and umbilicals;
- > for Eni Ghana, the **EPCI Takoradi** project is continuing, which includes engineering, procurement and construction of infrastructures necessary for upgrading the capacity of service stations near the ports of Takoradi and Tema in Ghana;
- > for British Petroleum, combined execution of both the **Tortue** (Marine & Civil and Facilities) contracts continues, which include engineering, procurement, fabrication, installation, hook up and commissioning of a breakwater, associated jetty and riser platform for the delivery of gas in co-development between Senegal and Mauritania;
- > for Eni Angola, the fabrication and offshore operation have been completed for the tie-back from **Agogo-1** exploration via a new rigid wet insulated 8-in flowline of about 15 km. The engineering and procurement activities have begun for the **Cabaca** project, including engineering, procurement, fabrication and installation of four risers and all associated ancillary equipment, 26-km rigid flowline, PLETs, rigid spools, jumpers, umbilicals and manifolds.

In Egypt, for Petrobel:

- > offshore installation activities have been completed for the **Zohr Oru** project, which includes engineering, procurement, construction and installation work for the "Optimised Ramp Up" phase of the Zohr field development project for gas extraction;
- > fabrication and installation activities are nearing completion for the **Zohr Rup** project, which includes engineering, procurement, construction and installation work for the "Ramp Up to Plateau" phase of the Zohr field gas development project.

Also in Egypt:

- > for Pharaonic Petroleum, engineering and procurement activities are nearing completion for the EPCI **Atoll** and **Qattameya** project, which provides for the fabrication and laying of a pipeline and an umbilical.

In the North Sea:

- > for Statoil, activities have been completed on the **Johan Sverdrup Export Pipeline** project, which encompasses the installation of a gas pipeline and an oil pipeline for the Mongstad refinery;
- > for BP, dismantling activities are almost completed for the **Miller decommissioning** project, which includes dismantling of the Miller platform topside and jacket;
- > for Nord Stream 2 AG, the laying and bottom shore pull operations (stabilisation) have been completed in the German Baltic Sea area for the **Landfall** project for the construction of the last section of the pipeline that crosses the Baltic Sea and landing at Greifswald, Germany; preparation has begun for the final laying operations;
- > for ConocoPhillips, preparatory activities have been completed for removal for the **LOGGS** project,

involving the dismantling of the topside and jackets of a platform;

- > for PremierOil, procurement activities are nearing completion for the **Tolmount** project, which includes the engineering, procurement and installation of the 20" Gas Export pipeline and associated 3" piggyback methanol line;
- > for Neart na Gaoithe, mobilisation and engineering activities have begun for the **NnG Offshore Windfarm** project, which includes engineering, procurement, fabrication and installation of 52 jackets for the development of a windfarm.

In Azerbaijan:

- > for BP, work relating to the **Shah Deniz 2 (Call-off 007)** contract continued for the scope of work 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; engineering has begun for CGLP (Call-off 001) contract for a gas lift pipeline to Chirag platform, for ACE (Call-off 006) and ACE (Call-off 020) projects;
- > for Total E&P, procurement and construction are nearing completion and installation is about to begin for the **Absheron** project, which includes engineering, procurement, construction and installation of pipelines and umbilical systems in the Caspian Sea.

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

Offshore fleet at December 31, 2019

Saipem 7000	Self-propelled, semi-submersible, dynamically positioned crane and pipelay vessel capable of lifting structures of up to 14,000 tonnes and J-laying pipelines at depths of up to 3,000 metres.
Saipem Constellation	Dynamically positioned vessel for reel-lay of rigid and flexible pipelines, down to ultra-deep water depths. It is equipped with a 3,000 tonnes crane and a laying tower (800 tonnes capacity) equipped with 2 tensioners each with 400 tonnes capacity.
Saipem FDS	Dynamically positioned vessel utilised for the development of deep-water fields at depths of over 2,000 metres. Capable of launching 22" diameter pipes in J-lay configuration with a holding capacity of up to 750 tonnes and a lifting capacity of up to 600 tonnes.
Saipem FDS 2	Dynamically positioned vessel utilised for the development of deep-water fields, capable of launching pipes with a maximum diameter of 36" in J-lay mode with a holding capacity of up to 2,000 tonnes and depths up to 3,000 metres. Also capable of operating in S-lay mode with a lifting capacity of up to 1,000 tonnes.
Castoro Sei	Semi-submersible pipelay vessel capable of laying large diameter pipe at depths of up to 1,000 metres.
Castorone	Self-propelled, dynamically positioned pipe-laying vessel operating in S-lay mode with an S-lay stern stinger of over 120 m composed of 3 sections for shallow and deep-water operation, a tensioning capacity of up to 500 tonnes, pipelay capability of up to 60 inches, onboard fabrication facilities for double and triple joints and pipe storage capacity in cargo holds.
Normand Maximus	Dynamic positioning ship (leased) for laying umbilicals and flexible lines up to a depth of 3,000 metres. It is equipped with a crane that has a lifting capacity of up to 900 tonnes and a 550-tonne vertical lay tower with the possibility of laying rigid flowlines.
Saipem 3000	Mono-hull, self-propelled D.P. derrick crane ship, capable of laying flexible pipes and umbilicals in deep waters (3,000 metres) and lifting structures of up to 2,200 tonnes.
Dehe	Dynamically positioned (leased) vessel equipped with anchors for laying pipes and a crane with a lifting capacity of up to 5,000 tonnes, capable of deep water installations up to depths of 3,000 metres and laying pipes up to 600 tonnes using 3 tensioners.
Castoro II	Derrick lay barge capable of laying pipe of up to 60" diameter and lifting structures of up to 1,000 tonnes.
Castoro 10	Trench/pipelay barge capable of burying pipes of up to 60" diameter and of laying pipes in shallow waters.
Castoro 12	Pipelay barge capable of laying pipes of up to 40" diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
Castoro 16	Post-trenching and back-filling barge for pipes of up to 40" diameter in ultra-shallow waters of a minimum depth of 1.4 metres.
Ersai 1	Heavy lifting barge equipped with 2 crawler cranes, capable of carrying out installations whilst grounded on the seabed and is capable of operating in S-lay mode. The lifting capacities of the 2 crawler cranes are 300 and 1,800 tonnes, respectively.
Ersai 2	Work barge equipped with a fixed crane capable of lifting structures of up to 200 tonnes.
Ersai 3	Support barge with storage space, workshop and offices for 50 people.
Ersai 4	Support barge with workshop and offices for 150 people.
Bautino 1	Shallow water post trenching and backfilling barge.
Bautino 2	Cargo barge for the execution of tie-ins and transportation of materials.
Ersai 400	Accommodation barge for up to 400 people, equipped with gas shelter in the event of an evacuation due to H 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.

ONSHORE ENGINEERING & CONSTRUCTION

General overview

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

Saipem enjoys a worldwide leading position in the Onshore sector, providing a complete range of integrated basic and detailed engineering, procurement, project management and construction services, principally to the Oil&Gas, complex civil and marine infrastructure and environmental markets.

Aiming to grow, and adapting to the specific regional features of traditional markets, focusing on development segments of interest, as well as traditional segments and the gas and LNG segment, which has recently seen significant growth, the Onshore Engineering & Construction Division has developed an operational organisation covering six geographical areas (Europe/Russia/Caspian Sea, the Americas, North Africa/Middle East, Asia-Pacific, Saudi Arabia, Sub-Saharan Africa) and two product lines (Infrastructure and New Energies) supported transversely by engineering, procurement and construction hubs and functions.

Over the year, development initiatives continued, aiming to transform and increase the efficiency of work processes through digitalisation.

Saipem pays close attention to the "carbon footprint" and to "circular economy and water/energy recovery" issues for all initiatives, even those still based on the exploitation of traditional energy sources.

The Group places great emphasis on maximising local content during the project execution phase in a large number of the areas in which it operates.

Market conditions

In 2019, the volume of contract awards rose gradually compared to the last three years. Although the price of oil reached \$80/barrel in 2018, volatility and uncertainty of market recovery times remained evident. The ongoing geopolitical tensions in different areas weigh on the current context, such as in Iran and Libya, where the finalisation of new projects is encountering various obstacles.

The largest volume of EPC contracts awarded during the period was in the Upstream Gas and Refining

segments, which account for almost half of the assigned volume. Important contracts were also awarded in the LNG, Fertilizer and Pipeline segments. Minor awards were recorded in the Petrochemical segment.

In 2019, the Onshore market, compared to 2018, shows growth in the Upstream segment, with important awards in North Africa, Saudi Arabia and Qatar. The LNG segment grew significantly in Russia, following the acquisition of the Arctic 2 project; in the Sub-Saharan area following the acquisition of the LNG megaproject in Mozambique for Anadarko and ExxonMobil-Eni; and in the United States following both new awards and initiatives already awarded but pending the necessary funding. Again in the LNG segment, tenders were launched in Qatar and Nigeria for important expansion projects.

Of particular note is the decline in the Pipelines segment which sees its importance reduced, despite some important awards, mainly in the gas and water sectors, in the Middle East (Qatar and Saudi Arabia) and smaller projects in Asia-Pacific. There was considerable growth for the Refining segment thanks to the award of relevant projects in the Middle East (United Arab Emirates), in Asia-Pacific (the largest in Indonesia, Balikpapan Refinery, and others in India), in Russia-Central Asia (the Moscow Refinery project GazpromNeft is ongoing). The Petrochemical segment also benefited from an increase thanks to some important awards, particularly in the United States and some in Europe (Poland).

The Fertiliser segment is stable, with significant initiatives in Russia, Qatar, Oman and Bahrain.

The Infrastructure segment continues to show positive signs of large investments internationally both in traditional markets (Europe and United States) and in new markets (Egypt, Middle East, India, Russia and the Far East). The most important acquisitions were recorded in the Middle East (Qatar, Saudi Arabia and United Arab Emirates) for projects in metropolitan areas. Finally, the rapid economic development occurring in the emerging countries is creating an important new market for large-scale civil and port infrastructures which Saipem is targeting, especially in strategic regions.

Capital expenditure

Capital expenditure in 2019 in the Onshore Engineering & Construction sector focused mainly on the acquisition of equipment and the maintenance of the existing asset base.

New contracts

The most significant contracts awarded to the Group in 2019 were:

- for Anadarko, in Mozambique, in joint venture with McDermott International and Chiyoda Corporation¹, an EPC contract for the engineering and construction of a LNG project consisting of the construction of two natural gas liquefaction trains, as well as all the necessary infrastructures, storage tanks and port facilities for export;
- for Saudi Aramco, in Saudi Arabia, an EPC contract for the implementation of "Package 10" of the Marjan development programme, which includes gas treatment, sulphur recovery and tail gas treatment trains;
- for Saudi Aramco, in Saudi Arabia, an EPC contract to increase the capacity of the Berri field through the realisation of new facilities in Abu Ali and Khursaniyah;
- for JSC GazpromNeft Moscow Refinery, in Russia, a contract for EPC of a new "Sulphur Recovery Unit" within the existing Moscow refinery;
- for Infrastructure Development and Construction (IDC), in Serbia, a new contract providing for engineering and construction activities for the Transmission Gas Pipeline project (Interconnector) Border of Bulgaria-Border of Hungary;
- for Eni, in Indonesia, an EPC contract for the implementation of the "Merakes" project to increase production in the Jangkrick and Jangkrick NE fields through the installation of new modules to increase the capacity of the existing Barge FPU.

Work performed

The biggest and most important projects under way or completed during 2019 were as follows.

In Saudi Arabia, for Saudi Aramco:

- the design, procurement and construction activities related to the **Hawaiyah Gas Plant Expansion** project continued for the expansion of the Hawaiyah gas treatment plant located in the south-eastern part of the Arabian Peninsula;
- work continues on two EPC contracts (Packages 1 & 2) relating to the **Jazan Integrated Gasification Combined Cycle** project for the generation of electricity to be undertaken at approximately 80 kilometres from the city of Jazan, in south-western Saudi Arabia. The Package 1 contract includes the gasification unit, the soot and ashes removal unit, the acid gas removal unit and the hydrogen

recovery unit. The Package 2 contract includes two sulphur recovery units and the associated storage systems. The scope of work of both packages includes engineering, procurement, construction, pre-commissioning, and assistance to commissioning;

- work is coming to a close as regards assistance on the **Complete Shedgum-Yanbu Pipeline Loop 4&5** project, which included detailed engineering, procurement of all materials, excluding the line pipe supplied by the client, construction, pre-commissioning and assistance with commissioning;
- as part of the **EPC Khurais** project, involving the extension of the onshore production centres in the Khurais, Mazajili, Adu Jifan, Ain Dar and Shedgum fields, various facilities included in the scope of works were delivered to the client, while the water injection unit, cogeneration unit and reverse osmosis plant are still to be delivered;
- material procurement and construction began for the **South Gas Compression Plants Pipeline** project relating to the development of the gas plant Haradh (HdGP) located in the east of the country, which provides for the auditing of detailed engineering developed by the client, procurement of all materials, excluding the line pipe for coated carbon steel lines provided by the client, as well as construction, pre-commissioning and commissioning support;
- the first phase of the restoration works on the plants damaged by the air raid on September 14, 2019 in **Khurais** was completed, with the plant restarted and production resumed by the client. The subsequent stages of the project are in progress, including the dismantling and replacement of some damaged equipment;
- for Saudi Aramco are ongoing the engineering, procurement and construction set-up activities for the projects **Berri** and **Marjan**, acquired during the course of 2019.

Also in Saudi Arabia:

- for Petrorabigh (a joint venture between Saudi Aramco and Sumitomo Chemical), the mechanical completion of the **Rabigh II** project related to the naphtha conversion plant and the complex for the production of aromatic compounds, while additional works, awarded during the second half of 2016, are ongoing related to the Utilities and Offsite Facilities package.

In Kuwait:

- for Kuwait Oil Co (KOC), engineering and procurement activities are nearing completion and

(1) Following the acquisition of the project, Chiyoda Corporation, which had an equal share of the partnership, reduced to a minimal share their interest in the joint venture.

construction activities relating to the **Feed Pipelines for New Refinery** project are underway.

The contract includes engineering, procurement, construction and commissioning activities related to the development of the new connection lines and related pumping station and measurement of the new Al Zour refinery located in south Kuwait;

- for Kuwait Integrated Petroleum Industries Co (KIPIC), in joint venture with Essar Projects Ltd, engineering and procurement activities for the **Al-Zour Refinery**, project are practically complete and construction activities are progressing. 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. The activities for the **KNPC Package 4** project which is a variation order of Al-Zour Refinery, are nearly completed, the project required the execution of tie-ins, modification of existing piping, laying of pipelines of different diameters and installation of new equipment.

In Iraq, for Exxon, prefabrication activities continue at the Rumaila base for the **West Qurna I** project.

The project involves the execution of infield engineering, pre-fabrication and construction relating to some tie-ins to existing plants (owned by Bassra Oil Co).

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

In Chile, for the Caitan consortium (Mitsui-Tedagua), construction has been completed and pre-commissioning has begun for the **Spence Growth Option** project for the development of a desalination plant and water pipelines in the north of Chile. The project includes engineering, procurement, construction and commissioning activities and will provide desalinated water to the Spence mine, owned by the mining company BHP, located at 1,710 metres above sea level.

In Kazakhstan:

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

provision of maintenance and services for offshore and onshore rigs. During the month of May, the first round of activities was completed safely and successfully and on time.

In Indonesia, for BP Berau Ltd, work has been completed in Jakarta for engineering and procurement, the logistics for the delivery of the materials are under completion and on-site construction of infrastructure activities are ongoing, while at the same time civil works are under completion and mechanical works for plant units are ongoing for the **Tangguh LNG Expansion** project, which involves the construction of an onshore LNG plant, auxiliary services, an LNG jetty and the associated infrastructure.

In Thailand:

- for PTT LNG Co Ltd (PTTLNG), the engineering and procurement activities developed in Taipei have almost been completed, and the works related to engineering, procurement and construction of the **Nong Fab LNG Project** Regasification Terminal including storage tanks and a jetty for importing LNG has now begun;
- for Thai Oil, in joint venture with Samsung Engineering and Petrofac International (leader) the **Clean Fuel** project is in progress, involving the construction and start-up of new units within the Sriracha refinery located around 130 kilometres from Bangkok, Thailand. The design and procurement activities continue, aiming mainly to supply the module manufacturing in the yards and the recently awarded civil works, buildings and underground works on the site.

In Turkey, for Star Refinery AS, start-up activities have finished for the **Aegean Refinery** project. The whole refinery is operational and in production. The performance test is ongoing and at an advanced stage. The contract included engineering, procurement and construction of a new refinery with a marine terminal consisting of one import jetty and two export jetties.

In Nigeria:

- for Dangote Fertilizer design and procurement activities are nearing completion and construction is ongoing for the **Dangote** project for the new ammonia and urea production complex. The scope of work encompasses engineering, procurement and construction of two twin production streams and related utilities located at the Lekki Free Trade Zone, Lagos State;
- for Southern Swamp Associated Gas Solution (SSAGS), construction was completed for the four sites, while start-up activities for the **Southern Swamp** contract are ongoing. The contract provided for engineering, procurement, construction and commissioning of compression facilities at four sites and of new gas central production facilities at one of the sites, which will treat the routed associated gas;
- for Nigerian Agip Oil Co (NAOC) the construction works continue for the **OKPAI 2** project, the testing activities have begun on the first group of generators. The project involves engineering, procurement, construction and commissioning

activities for a power plant consisting of two combined-cycle groups;

- for Nigeria LNG Ltd (NLNG) design activities for the Front-End Engineering Design (FEED) phase were completed in the **Nigeria LNG - train 7** project for the expansion of the existing LNG plant at Finima on Bonny Island. Following the submission of the bid, the contract pre-award activities are in progress.

In Mozambique, for Total (that acquired Anadarko interests at the end of 2019), are ongoing the design, procurement and construction yard set-up activities for **Mozambique LNG project**, consisting of the 2 LNG liquefaction trains, relevant utilities, tanks, land and marine infrastructures and export terminal.

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

In Italy:

- for Italgas Storage (IGS), engineering, procurement and construction activities have been completed for the **Natural Gas Storage Plant** EPC project, which included the development of natural gas storage plants in Cornegliano Laudense, in the province of Lodi. The engineering and procurement activities for a works variation are currently underway;
- for Eni Refining & Marketing, as part of the **Tempa Rossa** project, the activities are under way for the construction of the auxiliary systems and of two tanks for the storage of the crude oil coming from the Tempa Rossa field operated by Total;
- for Rete Ferroviaria Italiana, engineering activities are under way in the context of the **CEPAV 2 high speed** Brescia-Verona project, which includes engineering, procurement and construction of 48 kilometres of railway lines between the provinces of Brescia, Mantua and Verona.

In Serbia, for Infrastructure Development and Construction (IDC), the engineering, procurement and construction activities of the project **Transmission Gas Pipeline** (Interconnector) Border of Bulgaria-Border of Hungary are progressing.

In Russia, for Gazpromneft, have started and are progressing the engineering, procurement and construction set-up activities of the **Moscow Refinery SRU** project, including the engineering, procurement and construction activities of a new sulphur recovery unit for Moscow refinery.

In Mexico, for Pemex, activities have been completed under the **Tula Planta de H-Oil** contract, which included engineering, procurement, construction, commissioning and launch of a unit at the "Miguel Hidalgo" refinery located in Tula.

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

Floaters

The FPSO market continues to expand, despite current uncertainties. Several feasibility studies, FEEDs and tenders for EPC contracts are currently underway, and the oil companies express their confidence in approving the final investment decisions (FID) in the coming months. In 2019, the most important initiatives were Bonga Southwest in Nigeria, Petrobras 4 FPSO which is in the tender phase for Marlim 1 & 2, Parques das Baleias and Mero 2; among these initiatives, dialogue remains underway with the client concerning the Bonga South West project, and developments are expected in 2020.

The FLNG/FSRU market shows potential development for FLNG offshore of Israel, and is still expanding for FSRU, technology requested by new LNG clients. In particular, Asia remains an expanding market for those types of units, but there are also small projects in the Mediterranean.

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

New contracts

For Arctic LNG2 LLC (an investee company of Novatek and Total), in Russia, in joint venture² with Technip and NIPI, an EPC contract for the realisation of the topsides for the Arctic LNG2 project, representing the second phase of development of the Arctic fields in the Yamal region. The stake is equal to approximately 22%.

Work performed

The biggest and most important projects underway or completed during 2019 were as follows.

In Indonesia, for Eni East Sepinggan Ltd, the **Merakes Development** project is in progress, involving the extension of the production capacity of the FPU in the Jangkrik gas field. The engineering and procurement activities are practically complete, as are nearing completion the module prefabrication activities at the Karimun Yard; at the same time, the offshore campaign activities began on board the FPU.

In Angola, for Total, the realisation of the two **FPSOs Kaombo Norte** and **Kaombo Sul** was completed. The Kaombo project involved engineering, procurement, construction and commissioning of two FPSO vessels, followed by a production and

(2) Company measured using the equity method, therefore the result of the project is included in the balance of gains (losses) on equity investments.

maintenance management phase for a duration of 7 years plus an additional 8 optional years.

In Russia, for Llc Arctic LNG-2, in joint venture with RHI Russia BV (affiliated company of Renaissance Heavy Industries Llc), activities related to **Artic LNG 2 - GBS** project are ongoing for the completion of three liquefied natural gas plants that will be installed on reinforced concrete support and storage structures. The scope of the contract includes design, procurement, construction, transportation by sea and installation of three concrete support and storage structures. Construction will take place in Murmansk on a site made available by Novatek and then the structures will be transported and installed in Gydan, Russia. Moreover, have started the procurement and yard set-up activities of the project **Artic LNG 2 - Topsides**, that includes the engineering, procurement and the fabrication of the topside modules of three LNG trains to be supported by gravity base structures (GBS).

In the "Leased FPSO" segment, the following vessels carried out operations during 2019:

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

In the United Arab Emirates, for Eni, are ongoing the provision of the services for lay-up and preservation of the **FPSO Firenze**, which are necessary waiting for the relocation of the Firenze FPSO in Nigeria.

Finally, in Angola, for Total, have started the operations and maintenance services of the FPSO's **Kaombo Norte** and **Kaombo Sul**.

OFFSHORE DRILLING

General overview

At December 2019, the Saipem Offshore Drilling fleet consisted of fifteen vessels, divided as follows: six ultra deep-water units for operations at depths in excess of 1,000 metres (the drillships Saipem 10000 and Saipem 12000 and the semi-submersible drilling rigs Scarabeo 5, Scarabeo 7, Scarabeo 8 and Scarabeo 9), five high specification jack-ups for operations at depths of up to 375 feet (Perro Negro 7, Perro Negro 8, Pioneer, Sea Lion 7 and Perro Negro 9), three standard jack-ups for activities at depths up to 300 feet (Perro Negro 2, Perro Negro 4 and Perro Negro 5) and one barge tender rig (Saipem TAD). All these vessels are self-owned, with the exception of the Pioneer, Sea Lion 7 and Perro Negro 9 jack-ups, owned by third parties but managed by Saipem.

The Offshore Drilling fleet operated offshore Norway, in Egypt (both in the Mediterranean and the Red Sea), Pakistan, Mozambique, Mexico, the Middle East and Indonesia.

Market conditions

In 2019 there were timid signs of a possible recovery in the market over the medium term. The investments by oil companies in key markets grew slightly, and the high volume of scouting activities carried out by clients for the award of future contracts showed some recovery for the programming of future activities. This was particularly noted in the shallow water and harsh environment segments. However, although hoping for potential market recovery, a climate of prudence continues to prevail, well documented by the oil price trend, which settled steadily between \$60 and \$70 per barrel; values that were certainly higher than the negative peaks recorded in previous years, but still not able to push for a significant market recovery. The pressure on the rates continued to be significant, while the rates of use showed a slight increase up to 75%-80%; consistently with the above-mentioned investment trends of the oil companies, the most significant increase in use was recorded in the shallow water segment, while growth was more modest for the deep water and ultra deep water segments. As has already been occurring since 2015, the Oil&Gas sector's downturn has continued to push several companies to opt for dismantling the oldest assets and those with the lowest probability of being used. Overall over 200 facilities have been withdrawn from the market since the beginning of the crisis, leading to a more than 20% drop in drilling rigs. While up until 2017 the floaters segment suffered the greatest downsizing, since 2018 it was the standard jack-up category that suffered the most significant drop.

The number of withdrawals in the year was down (by around half) compared to what happened in 2018,

however it is believed that the rather modest demand for technologically obsolete rigs may lead to the withdrawal of further rigs.

Due to the significant number of orders awarded during the previous positive market phase and despite the significant number of deliveries (particularly in the jack-up segment) during the year, the construction of new offshore drilling units continued to maintain high levels: in December, 76 new units are in realisation (50 jack-ups, 8 semi-submersibles and 18 drillships), of which only four have a contractual commitment for use following the conclusion of the construction works. As has already occurred in the past, the negative market phase has also led, in several cases, to the postponement of the time frames for the delivery of plants under construction, ostensibly to 2020 and beyond, while awaiting better market conditions. The significant number of units that will be delivered in the medium term, and the already mentioned retirement that has affected a part of the existing fleet, represent structural changes in the Offshore Drilling sector that will have significant effects in the medium to long term.

New contracts

The most significant contracts awarded to the Group in 2019 were:

- for Saudi Aramco, the four-year extension in direct continuation of the contract for the high specs Perro Negro 7 jack-up for works in Saudi Arabia;
- for ADNOC, the four-year extension in direct continuation of the contract for the high specs Perro Negro 8 jack-up for works in the United Arab Emirates;
- for Saudi Aramco, the award of a 3-year contract plus an optional contract for work in Saudi Arabia to be carried out with a high specs jack-up; the activities have begun in 2020, carried out by the Sea Lion 7 unit;
- for Var Energi, the award of a contract for two wells plus five optionals; the activities will be performed offshore of Norway by the semi-submersible Scarabeo 8 starting in July 2020;
- for GSP, the realisation of a well in the Black Sea waters, with the semi-submersible Scarabeo 9;
- for Wintershall, the construction of two wells offshore Norway with the use of the semi-submersible harsh environment Scarabeo 8; the works started in December; the contract also provides for two additional optional wells;
- for Eni, the award of a one-year contract plus five 120-day options for production support activities; the project began in September 2019 in Angola with the use of the semi-submersible Scarabeo 5;
- for Repsol, the execution of a well in the offshore of Norway; the activities were performed in September

and October and involved the use of the semi-submersible harsh environment Scarabeo 8.

Capital expenditure

Investments made during the year concerned class reinstatement and work to ensure the compliance of vessels with international regulations and client requirements. Among the rigs subject to maintenance activities aimed at renewing the class certification there was in particular the jack-up Perro Negro 5, Scarabeo 5 and the Saipem 12000 drillship; the latter was also upgraded with the installation of the second BOP, an intervention to align the rig to the best drillships available on the market. In the second half of the year, the preparation and adaptation to the contractual specifications of the jack-up Sea Lion 7 were completed, in view of the start of activities for Saudi Aramco.

Work performed

In 2019, Saipem's offshore units drilled 101 wells (of which 33 workovers), totalling 133,635 metres. The fleet was used in the following way:

- ultra deep water/deep water units: the **Saipem 12000** drillship operated off the coast of Pakistan until June as part of the contract with the client Eni; subsequently, the ship was moved to South Africa for maintenance and upgrading ahead of the project on behalf of Eni in Mozambique; the **Saipem 10000** drillship, under a multi-year contract with Eni, continued the operations in Egypt; the semi-submersible **Scarabeo 9** completed the well drilling operations in Egypt in April; subsequently it was stacked in Cyprus where preparations then began for the project on behalf of GSP in Romania which started in November;
- the semi-submersible **Scarabeo 8** completed the activities on behalf of Total in early January and was then involved in works for AkerBP until June; in

the second half of the year, the unit completed works for Var Energi and Repsol Norge and began operating for Wintershall in December; the semi-submersible **Scarabeo 7** completed the works on behalf of Eni in Indonesia; the unit was then stacked from the end of September pending the acquisition of new contracts; the semi-submersible **Scarabeo 5** remained stacked in Norway pending the acquisition of new contracts until June; in the second half of the year, works began on the renewal of the naval class and the rig was transferred to Angola, where it began operating on behalf of Eni;

- high specification jack-up: the **Perro Negro 8** and the **Perro Negro 7** continued to operate respectively for ADNOC off the coast of the United Arab Emirates and for Saudi Aramco off the coast of Saudi Arabia; the **Pioneer** began work for Eni in Mexico in March; the **Sea Lion 7** was delivered to Saipem in August following the conclusion of a cooperation agreement with the owner; after a period of preparation and adaptation to the technical specifications of the client, the unit will begin to operate in Saudi Arabia for Saudi Aramco in early 2020; the **Perro Negro 9** was delivered to Saipem in December following the conclusion of a cooperation agreement with the owner; the unit was then transferred to the Middle East to complete the preparation and adaptation to the technical specifications of the client; the unit will replace the **Perro Negro 5** in the contract with Saudi Aramco in the second quarter of 2020;
- standard jack-ups: the **Perro Negro 2** remained laid-up on Saipem's base in Sharjah, United Arab Emirates, while waiting for new works. The **Perro Negro 5** continued operations in Saudi Arabia for Saudi Aramco; as mentioned above, the unit will be replaced by the Perro Negro 9 during the second quarter of 2020; the **Perro Negro 4** continued operations in the Red Sea for Petrobel;
- other: **Saipem TAD**, the tender assisted rig completed all contractual obligations with Total in December 2018 and is now stacked.

Utilisation of vessels

Vessel utilisation in 2019 was as follows:

Vessel	(No. of days)	December 31, 2019	
		under contract	idle
Semi-submersible platform Scarabeo 5		117	248 ^{(1) (2)}
Semi-submersible platform Scarabeo 7		273	92 ⁽¹⁾
Semi-submersible platform Scarabeo 8		334	31 ⁽¹⁾
Semi-submersible platform Scarabeo 9		272	93 ⁽¹⁾
Drillship Saipem 10000		365	-
Drillship Saipem 12000		279	86 ⁽²⁾
Jack-up Perro Negro 2		-	365 ⁽¹⁾
Jack-up Perro Negro 4		365	-
Jack-up Perro Negro 5		302	63 ⁽²⁾
Jack-up Perro Negro 7		365	-
Jack-up Perro Negro 8		365	-
Jack-up Pioneer ⁽³⁾		344	-
Jack-up Sea Lion 7 ⁽⁴⁾		-	151 ⁽²⁾
Jack-up Perro Negro 9 ⁽⁵⁾		-	22 ⁽²⁾
Tender Assisted Drilling Barge		-	365

(1) Days on which the vessel was idle and not under contract.

(2) Days on which the vessel underwent class reinstatement works and/or preparation works.

(3) Became available to Saipem in January 2019.

(4) Became available to Saipem in August 2019.

(5) Became available to Saipem in December 2019.

ONSHORE DRILLING

General overview

At December 2019, the Onshore Drilling rig fleet was composed of 85 units, of which 82 are owned by Saipem and 3 are owned by third parties but operated by Saipem. Moreover, one new rig is under construction, and will operate in Argentina as part of a five-year contract already included in the portfolio. The areas where Saipem operated were Latin America (Peru, Bolivia, Colombia, Ecuador and Argentina), the Middle East (Saudi Arabia and Kuwait), Kazakhstan, Italy, Romania and Africa (Congo and Morocco).

Market conditions

During 2019, the total volume of onshore drilling investments by oil companies increased slightly compared to 2018, in an industrial context characterised by a global oil demand that was practically stable.

In North America the drilling activities decreased in 2018 in terms of spending and active rigs, with a stronger fall recorded in terms of both vessel operations and daily rates.

In the international market, the one in which Saipem operates, the overall activity in 2019 has grown. The most dynamic areas, from an investment point of view and with a good increase in operational rigs, are the Asia-Pacific region, followed by the Middle East which recorded substantially stable levels of activity in Saudi Arabia which, with a total of about 500 new wells drilled, is confirmed as the reference market in the region, and growth in the Arab Emirates (Abu Dhabi) which in 2019 announced an expansion of the drilling fleet aiming to support the growing oil and gas production capacity.

In Latin America, drilling has shown, in terms of expenditure and number of rigs, levels of moderate growth compared to 2018, in particular as regards Argentina, which represents over 30% of the regional market. With regard also to the other areas in which Saipem operates (Europe and Africa), investment levels have been slightly higher.

Capital expenditure

The main investments made during 2019 related to work to ready rigs for operations in Argentina and Italy under previously acquired multi-year contracts. Furthermore in 2019 a new rig was built, and will operate in Argentina as part of a five-year contract already included in the portfolio.

Extraordinary maintenance and improvements on a proprietary rig began in October, following the acquisition of a contract in Bolivia; the works will be completed in 2020. Improvement and integration

interventions were also carried out for maintaining the operating efficiency of the fleet and meeting the specific requirements of clients.

New contracts

The most significant acquisitions in 2019 relate to extensions of contracts for 19 drilling rigs in the Middle East, with a duration of between three and ten years. Moreover, new contracts and extensions to other contracts already included in the portfolio were awarded in relation to new projects that will be completed in Bolivia, Peru and Romania.

Work performed

In 2019, Saipem's offshore units drilled 217 wells (of which 9 workovers), totalling 673,417 metres. In Latin America Saipem operated in several countries: in **Peru** work was carried out for various clients (including Pluspetrol, CNPC, Frontera Energy and Petroal) and Saipem was present in the country with seventeen of its own rigs (thirteen of which were used onshore and four were installed on offshore rigs) and two provided by the client; in **Bolivia** four rigs were used for work carried out for Shell and Repsol; in **Argentina** three rigs were used for ExxonMobil and YPF; in **Colombia** Saipem was present with two rigs that were used for Ecopetrol; in **Ecuador** there are two inactive units; in **Venezuela** the eighteen rigs in the country continued to remain inactive. In **Romania** drilling activities continued with the client OMV-Petrom. In **Saudi Arabia** Saipem deployed twenty-eight rigs which carried out operations for Saudi Aramco under previously acquired multi-year contracts. In **Kuwait** operations of two Saipem units provided to the client KOC are ongoing, under previously existing contracts. In **Kazakhstan** Saipem operated with two owned rigs, which were contracted to the client Zhaikmunay. In Africa Saipem operated in the **Congo** and in **Morocco**, in the former case for Eni Congo SA with the management of a unit owned by the client, and in the latter with a proprietary rig which began activities for Sound Energy. In **Italy** work continued on preparation of a rig for use for Eni; the works, initially expected to commence in the first half of 2016, were postponed to mid-2020. The period is, however, remunerated at the stand-by rate.

Utilisation of rigs

Operations lead to a weighted average utilisation of rigs of 68.3% (65.3% in the corresponding period of 2018), considering the technical characteristics of the fleet as the reference weights. The (simple) average

utilisation of rigs was 59.9% (55.6% in the corresponding period of 2018).

The highest (simple) average utilisation rate was recorded in the region referring to Europe, the Middle East and Africa, where contracted fleets were practically constant in relation to 2018, with 97.2% of days sold (97% in 2018). The number of rigs present in the region as at December 31, 2019 was 36 (equal to 2018). One third-party rig was used in the Congo.

In Latin America the lowest (simple) average utilisation rate was recorded (30.7% against 24.6% in 2018).

This result is the effect of the complete non-use of rigs in Venezuela and a slowdown in operations in Peru.

The number of rigs present in the region as at December 31, 2019 was 47 (48 in 2018). In addition, 2 third-party rigs were used in Peru.

FINANCIAL AND ECONOMIC RESULTS

The Saipem Group's 2019 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.

Reorganisation: impact on reporting

The results of the XSIGHT Division are not disclosed to the market separately, rather they are included in the Onshore Engineering & Construction Division because the numbers still do not warrant separate disclosure.

Operating results

Saipem Group - Income statement ⁽¹⁾

(€ million)	Year 2018	Year 2019	% Ch.
Core business revenue	8,526	9,099	6.7
Revenue and other income	4	11	
Purchases, services and other costs	(6,103)	(6,232)	
Net impairment losses on trade receivables and other assets	(57)	(62)	
Personnel expenses	(1,522)	(1,670)	
Gross operating profit (EBITDA)	848	1,146	35.1
Depreciation, amortisation and impairment losses	(811)	(690)	
Operating profit (EBIT)	37	456	n.s.
Net financial expense	(165)	(210)	
Net losses on equity investments	(88)	(18)	
Pre-tax profit (loss)	(216)	228	n.s.
Income taxes	(194)	(130)	
Profit (loss) before non-controlling interests	(410)	98	n.s.
Loss attributable to non-controlling interests	(62)	(86)	
Profit (loss) for the year	(472)	12	n.s.

(1) Figures for 2019 include impacts of IFRS 16, details of which are specified in the following pages.

Core business revenue in 2019 amounted to €9,099 million.

Gross operating profit (EBITDA) amounted to €1,146 million. Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets amounted to €690 million.

Operating profit (loss) (EBIT) for 2019 amounted to €456 million. The main variations relating to the income statement items above are detailed below in the analysis by segment.

The net financial expense is €210 million, up €45 million as a result of higher exchange losses and interest expense accrued on lease liabilities, following the introduction of IFRS 16, as well as greater expenses arising from the application of IFRS 9. Net losses on equity investments came to €18 million, mainly due to the loss on a contract performed by joint venture measured using the equity method.

Pre-tax profit amounted to €228 million. Income taxes amounted to €130 million, down by around €60 million compared to the previous year, thanks to the recognition of deferred tax assets by entities that

improved their performance upon completion of projects in countries where the withholding tax regime is in force.

Profit is €12 million (loss of €472 million in 2018), compared with the adjusted profit reduced by the following special items:

- impairment of property, plant and equipment of the Offshore Drilling Division for €58 million deriving from the impairment test;
- impairment of a jack-up and its working capital for €22 million. The rig was partially impaired because it will be replaced, due to completion of the contract, by a leased rig starting in March 2020;
- impairment losses on current assets for a total of €63 million in relation to certain long-pending lawsuits on projects now concluded, deriving from the activity of periodical legal monitoring of the progress of all disputes;
- release of provisions for disputes amounting to €38 million, following the favourable decision pronounced in the "Algeria" proceedings on January 15, 2020 by the Court of Appeal of Milan, which fully

upheld the appeal filed by Saipem SpA and by the individuals personally charged (including several former managers of the parent who had all left it between 2008 and 2012), and declared that the charge of administrative offence against Saipem SpA was dismissed because the offence did not occur, consequently revoking the ruling on

confiscation of the price from the crime that had been ordered at the first instance by the Court of Milan, pursuant to Article 19 of Italian Legislative Decree No. 231/2001;

➤ restructuring expenses of €48 million.

The items impacted by the special items in 2018 and 2019 are detailed below:

(€ million)	Year 2018	Year 2019
Revenues	8,526	9,099
Impairment losses on working capital	61	34
Adjusted revenues	8,587	9,133

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Total
Adjusted EBIT 2019	338	144	123	4	609
Impairment losses	-	-	58	-	58
Losses on assets	-	-	15	-	15
Impairment losses on current assets/provision for costs ⁽¹⁾	-	63	7	-	70
Release of provisions ⁽¹⁾	-	(38)	-	-	(38)
Restructuring expenses ⁽¹⁾	13	25	3	7	48
Total special items and restructuring expenses	(13)	(50)	(83)	(7)	(153)
EBIT 2019	325	94	40	(3)	456

(1) Total €80 million: adjusted EBITDA reconciliation equal to €1,226 million compared to EBITDA equal to €1,146 million.

(€ million)	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Total
Adjusted EBIT 2018	318	78	120	18	534
Impairment losses	-	73	262	-	335
Losses on assets	-	-	-	8	8
Impairment losses on current assets/provision for costs ⁽¹⁾	-	109	-	-	109
Restructuring expenses ⁽¹⁾	13	21	7	4	45
Total special items and restructuring expenses	(13)	(203)	(269)	(12)	(497)
EBIT 2018	305	(125)	(149)	6	37

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

The impact on the profit is equal to the impact on EBIT.

Saipem Group - Adjusted income statement

(€ million)	Year 2018	Year 2019	% Ch.
Adjusted core business revenue	8,587	9,133	6.4
Revenue and other income	4	11	
Purchases, services and other costs	(6,055)	(6,234)	
Net reversals of impairment losses (impairment losses) on trade receivables and other assets	(57)	(62)	
Personnel expenses	(1,477)	(1,622)	
Adjusted gross operating profit (EBITDA)	1,002	1,226	22.4
Depreciation, amortisation and impairment losses	(468)	(617)	
Adjusted operating profit (loss) (EBIT)	534	609	14.0
Net financial income (expense)	(165)	(210)	
Net losses on equity investments	(88)	(18)	
Adjusted pre-tax profit	281	381	35.6
Income taxes	(194)	(130)	
Adjusted profit (loss) before non-controlling interests	87	251	n.s.
Loss attributable to non-controlling interests	(62)	(86)	
Adjusted profit (loss) for the year	25	165	n.s.

Adjusted operating profit and costs by function

(€ million)	Year 2018	Year 2019	% Ch.
Adjusted core business revenue	8,587	9,133	6.4
Production costs	(7,469)	(7,940)	
Idle costs	(215)	(222)	
Selling expenses	(145)	(150)	
Research and development expenses	(33)	(38)	
Other operating income (expenses)	(18)	(2)	
General and administrative expenses	(173)	(172)	
Adjusted operating profit (EBIT)	534	609	14.0

Production costs (which include direct costs of sales and depreciation of vessels and equipment) amounted to €7,940 million, representing an increase of €471 million over 2018 in line with the increase in revenue. Idle costs increased by €7 million, compared to 2018. Selling expenses of €150 million showed a €5 million

increase due to current commercial efforts. Research expenses recorded under operating costs increased by €5 million compared to 2018. General expenses, equal to €172 million, are similar to 2018.

Offshore Engineering & Construction

(€ million)	Year 2018	Year 2019
Core business revenue	3,852	3,841
Cost of sales	(3,329)	(3,196)
Adjusted gross operating profit (EBITDA)	523	645
Depreciation and amortisation	(205)	(307)
Adjusted operating profit (EBIT)	318	338
Impairment losses and restructuring expenses	(13)	(13)
Operating profit (EBIT)	305	325

Revenue for 2019 amounts to €3,841 million, approximately in line with 2018, as the higher volumes recorded in North Africa and Central-South American were offset by lower volumes recorded in Sub-Saharan Africa, due to the conclusion of projects in Nigeria and Angola.

The cost of sales, equal to €3,196 million, registered a decrease of €133 million compared to 2018, thanks to a recovery in efficiency.

The adjusted gross operating profit (EBITDA) of 2019 was €645 million equal to 16.8% of revenue, €533 million net of the effects of the application of IFRS 16,

equal to 13.9% of revenue, up compared to €523 million in 2018, equal to 13.6% of revenue. Depreciation and amortisation rose by €102 million compared to 2018, following the entry into force of

IFRS 16.

The operating profit (EBIT) for 2019 amounted to €325 million and included restructuring expenses for €13 million.

Onshore Engineering & Construction

(€ million)	Year 2018	Year 2019
Adjusted core business revenue	3,769	4,199
Cost of sales	(3,651)	(3,972)
Adjusted gross operating profit (EBITDA)	118	227
Depreciation and amortisation	(40)	(83)
Adjusted operating profit (EBIT)	78	144
Impairment losses and restructuring expenses	(203)	(50)
Operating profit (EBIT)	(125)	94

Adjusted core business revenue for 2019 amounted to €4,199 million, representing an 11.4% increase compared to 2018, due mainly to higher volumes recorded in the Middle and Far East, only in part mitigated by the lower volumes developed in Central-South America and Sub-Saharan Africa. The cost of sales, equal to €3,972 million, registered an increase of €321 million compared to 2018, as a percentage, lower than changes in revenue, thanks to a recovery in efficiency. The adjusted gross operating profit (EBITDA) of 2019 is €227 million, equal to 5.4% of revenue, €189 million net of the effects of the application of IFRS 16, equal to

4.5% of revenue, compared to the €118 million in the corresponding period of 2018, equal to 3.1% of revenue. Adjusted EBITDA does not include the worsening of a joint venture contract, classified under the item "Net losses on equity investments" and corresponding to almost all of this item. Depreciation and amortisation amounted to €83 million, up €43 million compared to 2018, mainly due to the entry into force of IFRS 16. The operating profit (EBIT) for 2019 amounted to €94 million and included restructuring expenses for €50 million.

Offshore Drilling

(€ million)	Year 2018	Year 2019
Core business revenue	465	555
Cost of sales	(239)	(329)
Adjusted gross operating profit (EBITDA)	226	226
Depreciation and amortisation	(106)	(103)
Adjusted operating profit (EBIT)	120	123
Impairment losses and restructuring expenses	(269)	(83)
Operating profit (EBIT)	(149)	40

Core business revenue for 2019 amounted to €555 million, an increase of 19.4% compared to 2018, mainly due to the greater activity of the semi-submersible platform Scarabeo 8 and the drilling vessel Saipem 12000, which were partially idle in 2018, and to the contribution of the Pioneer jack-up, leased by third parties starting from January 2019; the increase was partly mitigated by the fact that the Tender Assisted Drilling Barge and the semi-submersible platforms Scarabeo 9 and Scarabeo 7 were idle. The cost of sales, which amounted to €329 million, showed an increase of €90 million, in line with the increase in volumes in 2018.

The adjusted gross operating profit (EBITDA) of 2019 is €226 million, equal to 40.7% of revenue, €220 million net of the effects of the application of IFRS 16, equal to 39.6% of revenue, compared to €226 million in 2018, equal to 48.6% of revenue. Depreciation and amortisation amounted to €103 million, almost in line with the figure for 2018. The impact of the introduction of IFRS 16 is not significant. The operating profit (EBIT) for 2019 amounted to €40 million, including the impairment losses on property, plant and equipment for €58 million resulting from the impairment test, the impairment of a jack-up and related working capital for €22 million, and restructuring expenses for €3 million.

Onshore Drilling

(€ million)	Year 2018	Year 2019
Core business revenue	501	538
Cost of sales	(366)	(410)
Adjusted gross operating profit (EBITDA)	135	128
Depreciation and amortisation	(117)	(124)
Adjusted operating profit (EBIT)	18	4
Impairment losses and restructuring expenses	(12)	(7)
Operating profit loss (EBIT)	6	(3)

Core business revenue for 2019 amounted to €538 million, with a 7.4% increase compared to 2018, thanks to higher volumes in Saudi Arabia and South America, partly mitigated by less activity in Kazakhstan.

The adjusted gross operating profit (EBITDA) for 2019 amounted to €128 million, equal to 23.8% of revenue, €123 million net of the effects of the application of IFRS 16, equal to 22.9% of revenue, compared to €135 million in 2018, which was equal to 26.9%.

Depreciation and amortisation amounted to €124 million, an increase of €7 million compared to the corresponding period of 2018. The impact of the introduction of IFRS 16 is not significant.

The operating loss (EBIT) for 2019 amounted to €3 million and included restructuring expenses for €7 million.

Summary of the effects deriving from the first-time adoption of IFRS 16

The following is a summary of the effects on the income statement deriving from the first time adoption of IFRS 16:

- > increase in EBIT for €12 million;
- > increase in EBITDA for €161 million;
- > decrease in profit of €14 million.

Specifically:

- > elimination of lease costs for €161 million;
- > increase in depreciation and amortisation for €149 million;
- > increase in financial expenses for €26 million.

(€ million)	December 31, 2019			
	Increase in depreciation and amortisation	Elimination of leases	Increase in EBIT	Increase in EBITDA
Offshore Engineering & Construction	100	112	12	112
Onshore Engineering & Construction	38	38	-	6
Offshore Drilling	6	6	-	5
Onshore Drilling	5	5	-	38
Total	149	161	12	161

Balance sheet and financial position

Saipem Group - Reclassified consolidated statement of financial position ⁽¹⁾

The reclassified consolidated statement of financial position aggregates asset and liability amounts from the statutory statement of financial position by function, under three basic areas: operating, investing and financing.

Management believes that the reclassified statement of financial position provides useful information that helps investors to assess Saipem's capital structure and to analyse its sources of funds and investments in non-current assets and working capital.

Dec. 31, 2018	(€ million)	Jan. 01, 2019 ⁽²⁾	Dec. 31, 2019
4,326	Property, plant and equipment	4,326	4,129
-	- Right-of-Use assets	550	584
702	Net intangible assets	702	698
5,028		5,578	5,411
2,682	- Offshore Engineering & Construction	3,083	3,023
511	- Onshore Engineering & Construction	637	594
1,256	- Offshore Drilling	1,268	1,232
579	- Onshore Drilling	590	562
78	Equity investments	78	106
5,106	Non-current assets	5,656	5,517
295	Net current assets	292	(64)
(208)	Employee benefits	(208)	(246)
2	Net assets held for sale	2	-
5,195	Net capital employed	5,742	5,207
3,962	Equity	3,962	4,032
74	Non-controlling interests	74	93
1,159	Net financial debt pre-IFRS 16 lease liabilities	1,159	472
-	- Lease liabilities	547	610
1,159	Net debt	1,706	1,082
5,195	Funding	5,742	5,207
0.29	Leverage pre-IFRS 16 (net debt/equity + non-controlling interests)	0.29	0.11
0.29	Leverage post IFRS 16 (net debt/equity + non-controlling interests)	0.42	0.26
1,010,977,439	Number of shares issued and outstanding	1,010,977,439	1,010,977,439

(1) See "Reconciliation of reclassified statement of financial position, income statement and statement of cash flows to mandatory templates" on page 66.

(2) Data were restated following the entry into force of IFRS 16.

Management uses the reclassified statement of financial position to calculate key ratios such as the Return On Average Capital Employed (ROACE) and leverage (used to indicate the robustness of the group's capital structure).

Non-current assets at December 31, 2019 stood at €5,517 million, a decrease of €139 million compared to January 1, 2019. The change derives from capital expenditure of €381 million, from depreciation and amortisation of €615 million and impairment losses of €75 million from the increase in the right-of-use assets of €185 million, from negative changes in equity investments measured using the equity method of €18 million and the positive net effect of €3 million deriving mainly from the translation of financial statements in foreign currencies and other changes.

Net current assets decreased by €356 million, from €292 million at January 1, 2019 to net current liabilities of €64 million at December 31, 2019.

Employee benefits amounted to €246 million, an increase of €38 million compared to January 1, 2019, due to allocations for restructuring expenses.

As a result of the above, **net capital employed** decreased by €535 million, reaching €5,207 million at December 31, 2019, compared to €5,742 million at January 1, 2019.

Equity, including non-controlling interests, amounted to €4,125 million at December 31, 2019, an increase of €89 million compared to January 1, 2019.

This increase reflected the negative effect of the purchase of non-controlling interests (€15 million) and the negative effect of dividend distribution (€62 million), only partially offset by the positive effect of the profit for the period (€98 million), the positive effect of the change in the fair value measurement of derivatives hedging exchange and commodity risk (€30 million), the positive effect on equity of translation into euro of the financial statements expressed in foreign currencies and other variations amounting to €38 million.

Net financial debt pre-IFRS 16 lease liabilities at December 31, 2019 amounted to €472 million, recording a decrease of €687 million on December 31, 2018 (€1,159 million). This significant reduction was

the result of net advance payments on new projects awarded in 2019, the rescheduling of certain investments, the proceeds from the award of arbitrations during the year and, last but not least, the

positive contribution from the collection of overdue receivables.

Net debt inclusive of IFRS 16 lease liabilities (€610 million) amounted to €1,082 million.

Analysis of net financial debt

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Non current loan assets	-	(69)
Non current bank loans and borrowings	655	676
Non current bonds and other financial liabilities	1,991	1,994
Net medium/long-term financial debt	2,646	2,601
Cash and cash equivalents	(1,672)	(2,272)
Financial assets measured at fair value through OCI	(86)	(87)
Other current loan assets	(32)	(178)
Current bank loans and borrowings	260	359
Current bonds and other financial liabilities	45	49
Net short-term debt (liquid funds)	(1,487)	(2,129)
Net financial debt (liquid funds) pre-IFRS 16	1,159	472
Net current lease liabilities	-	141
Net non current lease liabilities	-	469
Net financial debt (liquid funds)	1,159	1,082

Cash and cash equivalents includes: (i) cash and cash equivalents of €351 million in current accounts of projects executed in partnership or joint venture; (ii) cash and cash equivalents of €84 million in current accounts denominated in currencies subject to movement and/or convertibility restrictions; (iii) cash and cash equivalents amounting to €4 million in

current accounts subject to restrictions in the event of disputes with some vendors, for a total of €439 million.

For the information on the net financial position pursuant to Consob, communication No. DEM/6064293/2006, see Note 23 "Analyses of net financial debt".

Statement of comprehensive income

(€ million)	2018	2019
Profit (loss) for the year	(410)	98
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	-	(17)
- change in fair value of equity investments with effects on OCI	(1)	-
- share of other comprehensive income of equity-accounted investees relating to remeasurement of defined benefit plans for employees	-	(1)
- income tax relating to items that will not be reclassified	-	4
<i>Items that may be reclassified subsequently to profit or loss:</i>		
- change in the fair value of cash flow hedges	(100)	36
- change in the fair value of financial assets, other than equity investments, with effects on OCI	(1)	1
- exchange differences arising from the translation into euro of financial statements in currencies other than the euro	40	50
- income tax on items that may be reclassified subsequently to profit or loss	18	(7)
Other items of comprehensive income	(44)	66
Comprehensive income (expense) for the year	(454)	164
Attributable to:		
- owners of the parent	(518)	76
- non-controlling interests	64	88

Equity including non-controlling interests

(€ million)

Equity including non-controlling interests at January 1, 2019	4,036
Comprehensive income for the year	164
Dividends distributed to Saipem shareholders	-
Dividends distributed by other subsidiaries	(62)
Sale of treasury shares net of fair value of the incentive plans	2
Purchase of non-controlling interests	(15)
Share capital increase net of charges	-
Other changes	-
Total changes	(89)
Equity including non-controlling interests at December 31, 2019	4,125
Attributable to:	
- owners of the parent	4,032
- non-controlling interests	93

Reconciliation of profit (loss) for the year and equity to consolidated profit (loss) for the year and equity

(€ million)	Equity		Profit (loss)	
	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019
As reported in Saipem SpA's financial statements	3,141	3,062	(326)	(85)
Difference between the equity and profit or loss of consolidated companies and the carrying amount of the equity investments as accounted for in Saipem SpA's financial statements	544	549	32	34
Consolidation adjustments, net of tax effects:				
- difference between purchase cost and underlying carrying amount of equity	739	727	(58)	(2)
- elimination of unrealised intercompany profits (losses)	(258)	(236)	29	28
- other adjustments	(130)	23	(87)	123
Total equity	4,036	4,125	(410)	98
Non-controlling interests	(74)	(93)	(62)	(86)
As reported in the consolidated financial statements	3,962	4,032	(472)	12

The item "Other adjustments" includes mainly:
(i) consolidated entries aiming to align the profit margins of contracts affecting more than one subsidiary, the individual progress of which may not

have uniform economic/temporal development synchronised to the progress of the consolidated contract; (ii) consolidated entries to reflect and align any impairments deriving from impairment tests.

Reclassified statement of cash flows ⁽¹⁾

Saipem's reclassified statement of cash flows derives from the statutory statement of cash flows. It enables investors to understand the link existing between changes in cash and cash equivalents (deriving from the statutory statement of cash flows) and in net financial debt (deriving from the reclassified statement of cash flow) that occurred between the beginning and the end of the period. The measure enabling such a link is represented by the free cash flows, which is the cash in excess of capital expenditure requirements. Starting from free cash flows it is possible to determine either: (i) changes in cash and cash equivalents for the

year by adding/deducting cash flows relating to financial liabilities/assets (issuance/repayment of loan assets/loans and borrowings), to repayments for lease liabilities, equity (dividends paid, net repurchase of treasury shares, capital issuance) and the effect of changes in the consolidation scope and of exchange differences on cash and cash equivalents, or (ii) changes in net financial debt for the period by adding/deducting cash flows relating to equity, and the effect of repayments of lease liabilities and of changes in the consolidation scope and of exchange differences on net financial debt.

(€ million)	2018	2019
Profit (loss) for the year	(472)	12
Non-controlling interests	62	86
<i>Adjustments:</i>		
Depreciation, amortisation and other non-monetary items	840	882
Net (gains) losses on disposals of assets	4	(2)
Dividends, interest and income taxes	279	243
Cash flows generated by operating activities before changes in working capital	713	1,222
Changes in working capital related to operations	259	311
Dividends received, income taxes paid, interest paid and received	(261)	(275)
Net cash flows generated by operating activities	711	1,257
Capital expenditure	(485)	(336)
Investments in equity, consolidated subsidiaries and business units	(27)	(45)
Disposals and partial sales of investments in consolidated companies, business units and property, plant and equipment	1	11
Other changes related to financing activities	-	-
Free cash flows	200	887
Net change in receivables and securities held for operating purposes	(40)	(146)
Changes in short and long-term loans and borrowings	(172)	126
Repayments of lease liabilities	-	(127)
Sale (repurchase) of treasury shares	-	-
Cash flows from own funds	(79)	(77)
Changes in consolidation scope and exchange differences on cash and cash equivalents	14	(65)
NET CASH FLOWS FOR THE YEAR	(77)	598
Free cash flows	200	887
Repayments of lease liabilities	-	(127)
Sale (repurchase) of treasury shares	-	-
Cash flows from own funds	(79)	(77)
Exchange differences on net financial debt and other changes	16	4
CHANGE IN NET FINANCIAL DEBT PRE-IFRS 16 LEASE LIABILITIES	137	687
Effect of first-time adoption of IFRS 16	-	(547)
Financing for the year	-	(185)
Repayments of lease liabilities	-	127
Exchange differences and other variations	-	(5)
Change in lease liabilities	-	(610)
CHANGE IN NET FINANCIAL DEBT	-	77

(1) See "Reconciliation of reclassified statement of financial position, income statement and statement of cash flows to the mandatory templates" on page 66.

Net cash flows generated by operating activities of €1,257 million, net of the negative cash flow from capital expenditure and other investments in equity, consolidated subsidiaries and business units equal to €381 million, and of the positive flow of disposals and partial sales of investments in consolidated companies, business units and property, plant and equipment amounting to €11 million, generated a positive **free cash flow** of €887 million.

Repayments of lease liabilities generated a negative effect for €127 million; **cash flows from own funds** showed a negative balance of €77 million and was related to the payment of dividends (€62 million) and the effect of the purchase of non-controlling interests (€15 million). Exchange differences on net financial debt and other changes produced a negative effect of €4 million.

Therefore there was a change in **net financial debt pre-IFRS 16 lease liabilities** of €687 million.

The **change in lease liabilities** generated an overall negative effect equal to €610 million, due to the negative effect of the first-time adoption of IFRS 16, equal to €547 million, and due to financing for €185 million, partly offset by repayments of lease liabilities and exchange differences and other changes totalling €122 million.

Cash flows generated by operating activities before changes in working capital of €1,222 million related to:

- > the profit for the year of €98 million;
- > depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets of €690 million, the measurement of equity investments using the equity method of €18 million, the change in employee benefits of €21 million and the exchange differences and other changes for €153 million;

- > net losses on the disposal of assets of €2 million;
- > net finance expense of €113 million and income taxes of €130 million.

The change in working capital related to operations, positive for €311 million, was due to cash flows of projects underway.

Dividends received, income taxes paid, interest paid and received during 2019 were negative for €275 million and were mainly related to income taxes paid net of tax credits and interest paid. Capital expenditure during the year amounted to €336 million.

Summary of the effects deriving from the application of IFRS 16

On January 1, 2019, the new international standard IFRS 16 "Leases" became effective, defining a single model of recognition of lease contracts based on the recognition by the lessee of an asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments provided by the contract ("lease liability"). The following is a summary of the effects on the statement of financial position deriving from the application of the accounting standard:

(€ million)	Dec. 31, 2018 published	Effect of adopting IFRS 16	Jan. 1, 2019
Net tangible assets	4,326	-	4,326
Right-of-Use-assets	-	550	550
Net intangible assets	702	-	702
	5,028	550	5,578
Equity investments	78	-	78
Non-current assets	5,106	550	5,656
Net current assets	295	(3)	292
Employee benefits	(208)	-	(208)
Assets held for sale	2	-	2
Net capital employed	5,195	547	5,742
Equity	3,962	-	3,962
Non-controlling interests	74	-	74
Net financial debt pre-IFRS 16 lease liabilities	1,159	-	1,159
Lease liabilities	-	547	547
Net financial debt	1,159	547	1,706
Funding	5,195	547	5,742
Leverage pre IFRS 16 (net debt/equity + non-controlling interests)	0.29	-	0.29
Leverage post IFRS 16 (net debt/equity + non-controlling interests)	0.29	-	0.42

Key profit and financial indicators

Return On Average Capital Employed (ROACE)

Return On Average Capital Employed is calculated as the ratio between adjusted profit (loss) for the year before non-controlling interests, less net financial expense less the related tax effect and net average capital employed. The tax rate applied to financial expense is 24.0%, as per the applicable tax legislation.

Return On Average Operating Capital (ROACE)

To calculate the Return On Average Operating Capital, the average capital employed is netted of investments in progress that did not contribute to profit for the year.

No significant investments in progress in the two years compared were identified.

		Dec. 31, 2018	Jan. 1, 2019	Dec. 31, 2019
Profit (loss) for the year	(€ million)	(410)	(410)	98
Exclusion of net financial expense (net of tax effect)	(€ million)	165	165	210
Unlevered profit (loss) for the year	(€ million)	(285)	(285)	258
Capital employed, net:	(€ million)			
- at the beginning of the year		5,847	5,195	5,742
- at the end of the year		5,195	5,742	5,207
Average capital employed, net	(€ million)	5,521	5,469	5,475
ROACE	(%)	(5.16)	(5.21)	4.71
Return On Average Operating Capital	(%)	(5.16)	(5.21)	4.71

Net financial debt 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 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 equity, including non-controlling interests.

	Dec. 31, 2018	Dec. 31, 2019
Leverage pre IFRS 16	0.29	0.11
Leverage post IFRS 16	-	0.26

Non-IFRS measures

Some of the performance indicators used in the "Directors' Report" are not included in the IFRS (i.e. they are what are known as non-IFRS measures).

Non-IFRS 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-IFRS measures used in the "Operating Review" are as follows:

- > cash flow: the sum of 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 business segments, 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 property, plant and equipment, net intangible assets and equity investments;
- > net current assets: includes working capital and provisions for risks and charges;
- > net capital employed: the sum of non-current assets, working capital and the employee benefits;
- > funding: equity, non-controlling interests and net financial debt;
- > 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;
- > net financial debt: is calculated as financial debt net of cash and cash equivalents, bonds and other financial assets that are not instrumental to operations.

RESEARCH AND DEVELOPMENT

Technological innovation has always been one of Saipem's strongest strategic pillars. Today the Oil&Gas industry needs to renew its focus sharply in order to cope with both near and future challenges and, in this context, Saipem has taken the role of "Innovative Global Solution Provider" for the energy industry. The innovation efforts aim for a synthesis between the urgency to implement concrete solutions in the short term, mostly driven by current commercial projects, and the need to develop solutions reflecting the evolving macro-scenarios. In this field, technological innovation must be a key lever in achieving the goal of progressive and effective decarbonisation of energy. This model is then considering two dimensions: one "evolutionary", aiming at efficiency improvement, the second one "disruptive" to launch into the future. In the latter respect, we created the "Innovation Factory" that promotes an innovative and collaborative culture throughout within and outside the company by promoting open innovation joint projects with major technological players and academic spin-offs. "Evolutionary" innovation, a traditional domain of our divisions, is described in detail below.

Within the **Offshore Engineering & Construction Division**, technologies integrate and enable the business strategy as, they increase: (a) the efficiency of investments for subsea reservoirs development of clients and their costs; (b) execution efficiency in projects for clients; (c) opportunities for diversification or transformation of the business, both inside and outside the Oil&Gas value chain, mainly driven by energy transition.

Some of the ongoing initiatives concern the development of technologies to anticipate the issues of frontier areas, such as those relating to abyssal waters and HP/HT (high pressure/high temperature) fields, where the challenge now is to combine the demanding technical requirements with cost efficiency, thus needing more advanced materials such as composites or polymers, and new installation methods. In this framework, solutions using inner plastic liners are under qualification to extend their area of application, while the use of some riser configurations at a depth of 4,000 metres is being assessed, including the SIR (Single Independent Riser), with the use of composite materials. For the conventional steel configuration SHR (Single Hybrid Riser), on the other hand, Saipem recently qualified a new fixed bed connection, able to reduce the costs of the riser base and its installation.

A key element to increasing efficiency is the ability to propose, from project inception, innovative subsea field architectures and cost-effective solutions to our clients. Saipem continues to develop new technologies that allow moving part of the processes currently

placed at surface to the seabed, and/or connecting them to facilities positioned at ever-greater distances, also powering them by renewable energy harvested around the field itself. This is the case of the "Windstream" technology, a solution based on "Hexafloat", a floating windfarm system under development, which can supply additional electrical energy to subsea utilities or energy distribution systems in the field, aiming to reduce the costs of long tie-backs.

The backbone of these architectures are all electric subsea power distribution systems and new sealines, particularly those that are electrically heated with the "Heat Traced Pipe-in-Pipe" technology, further developed to reach longer step out, or through a local heating station, which has been recently tested and for which the next qualification phase is being prepared. Local subsea intervention solutions are also being developed, again based on heating, aiming to relax the conservatism adopted in the design phase to guarantee the flow in the pipes, and therefore the field capex. Saipem is proposing these proprietary technologies in optimised "Long Subsea Tie-Back" systems to clients, together with new concepts for subsea storage of chemicals and some subsea process technologies, in order to guarantee the flow of products over long distances. At the same time, solutions for flow monitoring are also being tested, ideally to ensure real time monitoring where criticalities are expected.

Saipem has recently signed several partnerships with clients and providers of key technologies to be integrated into the so-called "subsea factories" of the future. With Curtiss-Wright, Saipem is developing, building and testing a "barrier fluid-less" subsea pump. This is a fundamental step for the industrialisation of desulphation technology SPRINGS™ (developed together with Total and Veolia) and of other proprietary subsea processing technologies.

This development also fits with the "All-Electric" vision for fields, made of subsea infrastructures not requiring complex electro-hydraulic umbilical to actuate the valves in favour of just electric lines and optical fibres. As part of the Joint Development Agreement signed in 2017 with Siemens, the design and verification of the "Open Framework" subsea control system components has been successfully completed. Similarly, new agreements have been signed for the development of underwater electric actuators, high-cycling valves, and sulphate metres in water. Within this framework, a new initiative on chemical products was launched to industrialise and qualify the technologies that enable the transfer the storage and injection packages from topsides to the seabed. The objective is to remove the traditional tubing that deliver the chemicals through the umbilical, as the tubing has a significant impact on long tie-back

development costs. A joint development agreement has just been signed with Seko for the qualification of a subsea pump for chemicals, a fundamental step of the industrialisation programme.

As regards the other subsea processes still under development, some of the major oil companies and Saipem are discussing the third phase of the joint development of the proprietary "Spoolsep" technology. These new scale tests would qualify the "Spoolsep" system for the separation and cleaning of water produced together with oil, allowing it to be re-injected into the reservoir.

Furthermore, following the success of the conceptual study of the Hi-Sep™ technology for Petrobras, new intermediate tests are being prepared for the characterisation of the subsea separation of dense-phase CO₂. Other investigations are being carried out on sand management and subsea processes for gas fields, to offer solutions for the transportation of pre-treated gas over very long distances.

As the increase in the number of functions and operations assigned to subsea plants leads to increasingly complex fields, Saipem is looking to integrate the entire value chain, by proposing products, services and technologies that support the entire lifecycle of a client's field, from initial development to their decommissioning ('Life of Field' or LoF), and improve efficiency on operating costs, also minimising the intervention of support vessels.

Indeed, it is the new "Hydrone" platform that projects Saipem into the future of subsea robotics for operations assistance, even by remote. The first ROV/AUV Hydrone-R hybrid vehicle was launched and tested thoroughly in the sea in Saipem's nearshore "playground" in Trieste, and is now being delivered to work in the Equinor "Njord" field, off the coast of Trondheim, in extremely severe environmental conditions. This is the first ever LoF contract for a resident drone, covering 10 years of service and involving both the new Hydrone-R and the new Hydrone-W, a temporarily resident electric "work-class" ROV, which is currently being industrialised. Both vehicles will be operated remotely from onshore; a test was successfully carried out, operating from Italy an ROV launched underwater from a drilling rig in Norway, through a high-latency satellite connection, using Augmented Reality and Motion Prediction techniques.

The third vehicle on this platform is the Hydrone-S, an advanced AUV (Autonomous Underwater Vehicle) with artificial intelligence (AI) and residence capacity, which exploits some of the technologies already developed by Shell for its "FlatFish" prototype (Saipem recently signed an agreement for the industrial production and marketing of this) and by the cooperation with a second key international player, who in turn is developing similar subsea robot technologies. Furthermore, the whole Hydrone platform will benefit from more advanced functions which, combined with subsea wireless networks, will improve the continuous and detailed inspection capacity and allow more efficient data collection, introducing advanced

capacities that have already attracted the interest of several international players.

Saipem's ability to increase performance efficiency of its offshore projects was further demonstrated in the third phase of the "Zohr" project. The new solutions developed by the Saipem Pipeline Technology Centre in Ploiesti (Romania) have further increased the laying speed of carbon steel pipes for sour service with the vessel Castorone, clad pipes with the vessel FDS and PLET (Pipe Line End Termination) tie-ins, ensuring significant time and cost savings. Other significant cost reductions were obtained by maximising the prefabrication phases on board the laying vessels, by completely re-designing the process.

Similar solutions were also adopted for other projects, including "Liza" in Guyana and "Barzan" in Qatar. Among the results achieved by welding, NDT and FJC activities, worthy of mention are the prequalification of high-pressure carbon steel pipe AutoGTAW welding, the development of real-time (digital) radiography on girth welds, the qualification of the "Sincro" internal FJC machine, the improvements to the "Sandi" sanding technology and the "Shrinka" FJC technology, both developed for imminent large-diameter trunkline construction projects.

Other research, on high-productivity single-pass laser techniques for thick pipe welding, has shown encouraging results.

Efficiency can also be increased by extending the automation and digitalisation of production processes on board construction vessels or elsewhere. Saipem is involved in a large-scale innovation programme which has brought initial results on actual projects, including but not limited to: the automation of proprietary Smart Field Joint Coating systems that can be controlled (and operated) remotely and their "Digital Twins"; the SWS Training Simulator for welders; the creation of a control room in the PTC centre in Ploiesti.

Execution efficiency also passes through a rigorous control of operational risks. The "IAU" (Integrated Acoustic Unit) system, which controls the risk of flooding a sealine, has almost completed the qualification process with DNV-GL, and today Saipem is offering it on operating projects. This qualification is currently in progress for the "AFT" (Anti-Flooding Tool), which prevents flooding in already laid pipe sections during installation.

In the Decommissioning sector, Saipem successfully completed the dismantling of the "BP-Miller" platform, with an unprecedented "extended" lifting and transport technique, which is now being further developed.

Within the design of subsea systems, the XSIGHT Division is following some significant initiatives for the development of an integrated market range, aiming to involve clients in the initial stages of the projects, including:

- Development and Digital Visualisation of subsea system design in the conceptual stage. XSIGHT is using the FieldAP software innovatively, by making it work as a data platform in cloud, allowing the

different parties working to define the project, including the client, to cooperate more quickly.

- **Modernisation of Subsea Field Design.** In 2019, within the SpiDev project – concerning a web-developed design instrument based on the Python system – an efficient cooperative design platform was realised, demonstrating clear advantages for document release times and project execution.
- **Production Quality Solutions (Design).** The engineering design software for thermal-hydraulic dynamic modelling OLGA, normally used in Flow Assurance, was used to develop specifications for line insulation and sizing.

The **Offshore Drilling Division** has been involved in the development of new subsea drilling technologies to improve efficiency and safety of offshore drilling operations: the project is referred to as Neptune riser shape monitoring systems.

The Division is also in the forefront of wearable technologies to improve efficiency of its own personal protection equipment: the concept is to leverage sensors, widely available on the market, and use them to achieve more safety where we operate. A smart boot prototype was finalised and is now in the industrialisation phase, while a smart shirt pilot project began in cooperation with the Milan Polytechnic, aiming to verify the feasibility and potential of these systems. In the field of digitalisation of drilling operations, in collaboration with Eni, a new portable virtual system was developed for immersion and operation training simulations in order to improve rig and equipment knowledge and operation know-how, support and safety awareness; the main contribution of Saipem was the complete virtualisation of Scarabeo 8.

Complementing the fleet virtualisation efforts, Saipem 12000 is in the roll out phase, and four other rigs will be virtualised in 2020; to increase complexity of the Scarabeo 8 digital twin, the Division also launched a pilot project aiming to add new information sources and capabilities, as well as to extend the programme to other flagship rigs.

Furthermore, after extensive proofs of concept, an implementing project on predictive maintenance has begun, to be deployed on the most critical equipment on the Scarabeo 8: the aim is to detect anomalies and propose "what if" analyses.

The Division is also working on the development of concepts to reduce risks linked to lifting operations in open sea, exploiting remote control technologies and increasing operator visibility using digital systems. Lastly, the development of technologies considered breakthrough for the drilling industry is being actively monitored: electric BlowOut Preventer (BOP) and robotic drilling systems. Whilst the former would allow the achievement of more safety and more data from the BOP behaviour, the latter is considered to be a main building block for autonomous drilling.

The **Onshore Drilling Division** has focussed its efforts on exploiting real-time data from sensors installed on land rigs in order to enable informed decision making by the personnel and achieve operational excellence through the adoption of digital

tools. In particular, a Drilling Performance Dashboard was adopted to support the improvement of operating performance and a Predictive Maintenance System was assessed, based on machine learning technologies and aiming to optimise asset productivity and life cycles. These innovative solutions are currently implemented in Kuwait, with a view to extending their application in other Middle Eastern countries.

The **Onshore Engineering & Construction Division** and the **XSIGHT Division** have been focusing their innovative efforts mainly on the monetisation of natural gas, taking advantage of the solid expertise on the subject to maximise the efficiency of the entire value chain. To this end, a multi-year plan is in progress to keep the proprietary technologies at the highest level of competitiveness.

Relevant to the fertiliser production technology "Snamprogetti™ Urea", the ongoing activities include:

- improving resistance to corrosion and cost reduction through the development of novel construction materials (an innovative metal alloy was successfully defined), either by traditional or additive manufacturing;
- enlarging our portfolio of high-end solutions with the introduction of the Snamprogetti™ SuperCups trays, which drastically increase the mixing efficiency of the reactant phases, optimising the product conversion rate; 17 new or "revamped" facilities are or will be adopting the SuperCups trays;
- complete solutions to operating plants as represented by the acquisition of the Tuttle Prilling Bucket technology, a device adopted worldwide in Urea prilling towers for the production of high quality prills for a wide range of plant capacities;
- reducing gaseous emissions using an innovative proprietary technology. A pilot plant is under construction and will begin operations in 2020;
- innovative solutions for Ammonia-Urea complexes (and also for refineries) for waste water treatment by a cooperation agreement with Purammon Ltd for a highly effective removal of nitrogen and organic contaminants through a novel electrochemical technology, that allows for compliance with the most stringent environmental regulations.

Continuous efforts in the LNG (Liquefied Natural Gas) field are ongoing to define proprietary small-scale liquefaction and re-gasification of natural gas, which can become a flexible tool also for supporting sustainable mobility in the near future.

Furthermore, the divisions and Saipem associated company Moss Maritime are working on alternative solutions designed to suit the current market scenario, including LNG structures based on the proprietary Liqueflex™ technology. The following key activities are in progress for the afore-mentioned applications:

- design consolidation, integration of information on equipment/suppliers and criticality assessment of maintenance of Onshore small-scale LNG solutions;
- development of Floating LNG solutions based on conversion of Moss type LNG carriers, including studies for the enhancement of production capacity;

- > cooperation with shipyard partners for the assessment of Floating LNG execution;
- > cooperation with a partner for the development of a new low-cost containment system for small and medium-scale transportation of LNG.

Relevant to High Octane technologies, the ongoing activities of XSIGHT Division include:

- > integrating the full process plan into a single simulation tool, reducing PDP preparation time;
- > further improving the knowledge of high purity Isobutene technology proprietary catalyst by involving a qualified, external laboratory;
- > identification of new potential applications.

XSIGHT is also defining the environmental "performance" of its products and licensed "utilities" using a standard LCA (Life Cycle Assessment) methodology that provides clients with a reliable and transparent quantitative assessment of their potential environmental impacts.

In the medium-long term, targeting progressive decarbonisation of energy and overall CO₂ reduction, Saipem is pursuing several and diversified actions:

- > *CO₂ Management*: the Group 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;
- > *reduction of Gas Flaring (mostly natural gas, emissions)*: a few specific activities have been carried out with relation to real cases; innovative solutions are being developed;
- > *hybrid solutions*: application of novel approaches to optimise integration of renewables/energy storage concepts with fossils exploitation in Oil&Gas operations for oil production, both onshore and offshore (as reported above for the Windstream project);
- > *hydrogen*: the potential for the future use of green hydrogen or blue hydrogen in industry, automotive transport and domestic heating is currently under study. The focus is on production technologies and potential applications;
- > *circular economy*: the development of innovative solutions to sustainably treat waste or residual/opportunity feedstocks from the Oil&Gas industry (or other industries, including plastics recycling), with their consequent valorisation to energy and/or valuable products, is becoming an important asset.

In the onshore renewables field, technology efforts are dedicated to concentrated solar and bio-refineries. In addition, XSIGHT Division has recently signed an agreement with KiteGen Research for the development of an innovative device that generates electricity from high altitude winds, by using kites; the concept can be extended also for offshore applications.

In the offshore renewables, after the successful installation of the first floating wind farm in the world (Hywind Scotland project for Statoil), Saipem has obtained the new contracts for the realisation of two offshore wind parks: "Neart na Gaoithe" (NnG), off the

coast of Scotland, and "Formosa II" off the coast of Taiwan. These projects involve the construction of many steel platforms, using new series production processes, for which new digital and other instruments and methods have been developed.

Saipem is also pursuing several other solutions, including a new concept of "Offshore Floating Solar Park", developed by Moss Maritime.

As regards the promising marine/ocean energy sector, some important results have already been obtained:

- > an agreement has been signed with the Finnish company, Wello Oy, which has developed an innovative technology for the production of energy from sea waves, called Penguin;
- > the XSIGHT Division is also supporting a survey campaign aiming to identify the ideal site for the application of the GEMStar hydro-turbine, developed by SeaPower, a spin-off of the University of Naples. In this field, Saipem's activities will include the transport and installation of the turbine and the optimisation of its anchorage.

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

Another innovative approach being developed is the EWIS (Early Warning Integrated System), a data collection and decision-making support platform that will ensure effective and immediate intervention in the event of oil leaks at sea. EWIS will integrate and process data on the movement and extension of oil slicks obtained from different sources (satellites, aircraft, radars, fixed observation structures, etc.). All data will be processed and mapped in GIS configuration to allow users to define and implement the most suitable recovery techniques.

Within the complete framework of technological development activities, Saipem filed 18 new patent applications in 2019.

As for "Disruptive" innovation, Saipem is consolidating its efforts in the "Innovation Factory", launched in 2016 to address the challenges of the sector through the adoption of novel technologies and new methodologies, aimed at changing the way Saipem works, not only to increase efficiency and productivity but also to discover and pursue new value propositions. Carefully defined strategic issues, agile approach, rapid prototyping, digitalisation, cross-industry open innovation and promotion of innovative thinking are the key success factors. Approximately 25 Proof of Concepts have been delivered so far, and 5 of them have passed to the pilot phase in divisions with interesting impacts. In the second half of 2019 a new round of Proof of Concepts was launched, concerning key issues such as the Blockchain, Floating Renewables Poles, Immersive Virtual Realities, Operations with "connected" workers, new technologies for MMO, and

Estimation and Reduction of the CO₂ Footprint in new projects.

In terms of Open Innovation, a systematic survey of the rich ecosystem of innovative start-ups and SMEs has begun in the "deep-tech" field (medium-large-scale energy storage) and in the digital field (blockchains), identifying some very promising solutions that will be developed in 2020.

The XSIGHT and Offshore Drilling divisions are jointly working on projects for the digital enhancement of facilities, to reduce their down-times and guarantee system integrity through the adoption of smart technologies, including:

- Coherent Optics Technology for monitoring the mechanical behaviour of structures and any related fractures, in cooperation with the Milan Polytechnic;
- Industrial Analytics, for predictive maintenance and plant management applications.

XSIGHT is also developing programming codes in-house, based on the principles of Artificial Intelligence and analytical data management, useful for defining and monitoring projects, including:

- a software for analysing contractual requirements, developed on standard project types implemented by XSIGHT and able to quickly analyse contractual documentation, retrieving the information of interest and facilitating compliance with the contractual requirements and constraints;
- a design and budgeting software, which uses Artificial Intelligence to increase the traceability of work, reduce the risk of error and increase efficiency in basic project performance activities.

Finally, the "Saipem Open Talks" event was held in Milan. Here the company discussed and shared with stakeholders and media representatives the vision of Saipem on strategic key topics of the sector, including innovation as a driver of sustainability.

HUMAN RESOURCES

Organisation and Quality

In 2019, Saipem continued to pursue the objectives of simplification, innovation, effectiveness and efficiency, which are the basis of the divisional model, further strengthened by the programme "Towards a new organisational structure", concluded in 2018.

At the same time, in order to effectively respond to the ever-changing conditions of the markets in which Saipem operates, the organisational initiatives and measures developed by the divisions and by the Corporate structure have been oriented towards the search for maximum operational flexibility, improved performance and group governance processes, in constant adherence to the principles of compliance and governance.

The following activities have been carried out:

- definition of the principles and instruments underlying the role and guidance, coordination and control actions exercised by the Corporate structure and by Saipem divisions towards local entities;
- identification and introduction of innovative digital solutions aimed at simplifying the regulation and effective digitalisation of the Processes and, at the same time, facilitating the consultation of the current Group Regulatory System;
- development of the "Keep on Changing" initiative, which aims at fostering awareness and the continuous development of the main areas of change and at guaranteeing the right commitment by Saipem personnel at all levels;
- definition of an organisational model for Cyber Security, aimed at optimising aspects of IT security and integrity, and aligning the operational and organisational model of "Digital & Innovation" both at Corporate and Division level, aimed at promoting, guiding, and implementing group transformation initiatives.

At the Division level, the following organisational measures were implemented:

- Onshore Engineering & Construction Division: launch of the "Turnaround Programme" aimed at defining a new operating model, necessary to the achievement of the new strategic objectives of the Division;
- Offshore Drilling Division: establishment of the position of Area Coordinator with the aim of ensuring the protection of business interests in the various countries which are of interest to the Division, guaranteeing the development of relations with clients, institutions and local stakeholders;
- XSIGHT Division: establishment of the "Business Development and Commercial Strategies" function in order to ensure effective management of Business Development activities and the definition of strategies and business plans with a cross-sectional view of the various Division products;
- Offshore Engineering & Construction Division and Onshore Drilling Division: fine-tuning of

organisational structures, aimed at optimising the adopted operating models.

With regard to Quality management, with a view to continuously improving the Quality Management System and the related development, measurement, analysis and adaptation processes, the following actions have been taken:

- overall review of the organisational structure and Saipem's "Multisite" certification scheme pursuant to ISO 9001, seeking greater consistency with the divisional configuration of the Group and with the increasing autonomy attributed to the divisions;
- development of an initiative aimed at obtaining optimal dissemination of a quality "culture" at the Group level, as well as increasing awareness and sensitivity of the principles related to it;
- in line with previous years, optimisation of the methods and tools supporting the Quality and Management Functions of the Group and of the various Saipem companies, for effective management of the overall Group Quality System with particular reference to:
 - a. Lessons Learned, Customer Satisfaction and "Cost of non Quality", with the aim of improving its application to projects;
 - b. Performance Indicators (PI), with the objective of simplifying the indicators and the processes of detection, collection and analysis;
- regulation by the divisions of the Quality Assurance and Control processes in projects, aimed at guaranteeing a more effective, efficient and systematic application of the project Quality Management System;
- analysis of the planning and execution process of the "Quality System Internal Audit", which pursues an integrated and coordinated vision of the activities.

In addition, as part of the "Regulatory System Updating" programme, the updating of Saipem's documentation and the overall adaptation of Saipem's system of powers and delegations in compliance with the specific needs of each individual business continued.

Human Resources Management

The policies for the management and development of its human resources are a fundamental lever Saipem uses for the valorisation of human capital.

All resources are managed following principles of fairness and transparency, in full compliance with the national and international regulations, with contracts, with company procedures and practices, as well as the principles contained in Saipem's Code of Ethics. Particular attention is also paid to the value of multiculturalism and diversity which have always

represented some of the most distinctive features of the Group's organisational and operational context. In 2019, as part of the profound changes and transformation process underway in the energy sector, the company introduced and developed a series of initiatives and projects aiming to ensure better integration between HR processes, through the close correlation between strategic resource planning and the recruitment, training and development processes. The most important actions carried out in this sense include the adoption of a new human capital management and development model, oriented to the planning and enhancement of professional skills, able to guarantee an appropriate and prompt availability of professional skills and resources in relation to the needs determined by the evolution of the reference market.

The connection between the professional skills model and the talent attraction and development strategies, increasingly linked to the monitoring and analysis of the evolution of skills and the internal and external market, has been strengthened. The Reverse Mentoring programme was launched during the year, supporting a corporate mindset based on cooperation and the sharing of knowledge among resources.

The primary objective is to preserve the distinctive high-level know-how of the most senior resources and at the same time foster cross-generational learning. Among the adopted recruitment initiatives, it is worth mentioning the digitalisation of the majority of the process in order to improve skills scouting and guarantee a rapid and direct "candidate experience" that responds to the needs of younger candidates, used to smart recruitment methods.

The close attention to human capital was underlined in 2019 also through initiatives aiming to encourage lean

working methods able to ensure a better work-life balance for both the resources working in corporate home offices and those working abroad; the company has implemented the FlexAbility Programme for a selected population of Italian and French resources who experimented "remote work" methods.

The analysis of the feedback obtained from this experiment will make it possible to evaluate other possible actions to strengthen a work model that is more efficient and that ensures full empowerment of resources in the achievement of results.

Within the broader HR Digital transformation process, a long-term work plan has been defined aiming to improve the employee digital journey overall.

Saipem's primary objective is to drive digital transformation, accompanying employees in their physical and digital employee journey, through the integrated management of systems and processes that will lead to the development of more efficient working methods that respond to new challenges, thanks also to the adoption of new digital platforms.

Welfare initiatives continued which, together with the management and development processes, represent for Saipem one of the key competitive tools for staff attraction and retention, and focus on aspects including support to families, health care, complementary pension schemes, recreation and mobility.

Taking into consideration the importance of the population of expatriate personnel, equal to about one third of the total, the processes that provide support to international mobility have always represented a critical factor for success through which Saipem pursues objectives of integrating and developing personnel, the transfer of know-how and the creation of long-term value with regard to the capitalisation of skills and experience gained on projects. In 2019, the review of

	(units)	Average workforce 2018	Average workforce 2019
Offshore Engineering & Construction		12,266	12,935
Onshore Engineering & Construction		12,454	12,344
Offshore Drilling		1,722	1,697
Onshore Drilling		4,503	4,497
Staff positions		849	908
Total		31,794	32,381
Italian personnel		5,703	5,763
Other nationalities		26,091	26,618
Total		31,794	32,381
Italian personnel under open-ended contract		5,504	5,497
Italian personnel under fixed-term contract		199	266
Total		5,703	5,763

	(units)	Dec. 31, 2018	Dec. 31, 2019
Number of engineers		5,559	6,137
Number of employees		31,693	32,528

the management policies for staff working abroad was completed, in response to the need to create a flexible model coherent with the market trends in each division. Saipem has adopted more flexible policies to support a better life-work balance also for resources working abroad.

The trade union organisations were involved constantly, agreeing on objectives, projects and implementation methods for key human resources management solutions. In Italy, in September an understanding was reached for the renewal of the Energy and Oil National Collective Labour Agreement (CCNL), valid for the three-year period 2019-2021. The main innovations, supporting sector competitive performance and in response to the current digital and technological changes, include the introduction of an assessment system for individual professional contribution, linked to objective factors of work performance and the review of the contractual clauses relating to the classification system. Finally, in the welfare field, the new collective labour agreement has introduced specific rules on the methods of granting personal holiday allowances for solidarity purposes, as well as new methods of payments to complementary pension schemes, aiming to incentivise the participation of younger workers and support improved pension income.

In Italy, 2019 saw the end of the management action plan pursuant to Article 4 of Italian Law No. 92/2012, supporting generational turnover, in compliance with the aim of transferring know-how to younger resources.

Compensation

The Remuneration Policy Guidelines for 2019 defined in light of new market challenges that have been and must be addressed, are intended to attract, motivate and retain high-profile professional and managerial resources in order to strengthen the alignment of shareholders' interests and management in the medium to long term. In line with the past years, the Remuneration Policy was meant to selectively reward those skills that have a greater influence on business results and are able to offer a distinctive and decisive contribution to the success of the Group's strategy, guaranteeing that those skills remain in the Group. In this context, the divisions have adopted specific retention plans and project incentives aiming to motivate resources with specialist technical and/or development skills identified as functional to the achievement of the objectives laid down in the strategic plan and the project targets.

In 2019, in continuity with previous years, the utmost attention was paid to the drafting of remuneration policy guidelines, with a focus on the critical roles holding the skills that Saipem may need in a long-term strategic perspective.

The "2019 Remuneration Report" in which the guidelines are explained, 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 11, 2019, and by the Shareholders' Meeting on April 30, 2019.

As stated in the Remuneration Policy Guidelines, particular attention was paid to the definition of the performance indicators for the year and of targets and assessment parameters of the same, with a view to strengthening their solidity and creating value for the shareholders. During the year the deployment of company and division objectives was pursued, following a top-down process covering the whole managerial population.

Following the report of the Group's objectives and management performance assessments for 2018, the Group has awarded individual Short-Term Variable Monetary Incentives as provided for by the Remuneration Policy proposals for 2019.

The Remuneration Policy Guidelines for 2019 have provided for the revision of the Long-Term Variable Share-based Incentive Plan (LTI) for all managerial resources. The new Long-Term Variable Incentive Plan 2019-2021, introduced to pursue the shareholders' long-term interests, strengthen the participation of the management in the business risk and promote the improvement of company performance, has three annual allocations. In October, Saipem implemented the first allocation. At their meeting of October 23, 2019, the Board of Directors set at 7,934,080 the maximum number of treasury shares to be bought back to cover the 2019 allocation of the Plan.

To pursue the aim of aligning to the best market practices and investors' requests, an in-depth study was implemented to identify the corporate objectives for 2020, with particular attention to ESG (Environmental, Social, Governance) issues, continuing efforts towards a sustainable and responsible creation of value for investors and for the company as a whole.

Quality

The definition, implementation and management of Quality activities are based on the principle of the continuous improvement of the Quality Management System. In this respect, the following objectives were achieved:

- overall review of the organisational structure of the Quality functions and the "Multisite" ISO 9001 certification system, consistently with the Group's organisation into divisions, assigning autonomy and responsibility to the divisions for the development and management of the Quality Management System and the activities connected to the award and maintenance of the relative certifications;
- strengthening of the quality "culture" at Group level, raising awareness of and sensitivity to its related principles, optimisation of the methods and tools supporting the Quality and Management Functions of the Group and of the various Saipem companies, for effective management of the overall Group Quality System;
- continuous improvement of the Quality Assurance and Control processes in projects, aimed at guaranteeing a more effective, efficient and

systematic application of the Quality Management System of each individual business;

- > planning and execution of the "Quality System Internal Audit", for multisite certification;
- > maintaining the ISO 3834 certification for Onshore Pipelines and Arbatax Fabrication Yard;
- > maintaining the EN 1090-2 certification for the Arbatax Fabrication Yard.

Furthermore, the following actions were started during the year:

- > optimisation of the system of Performance Indicators, aiming to identify significant indicators in synergy with those of other disciplines, simplifying the processes of indicator detection, collection and analysis;
- > identification of innovative digital solutions aimed at simplifying the regulation of the Processes and facilitating the consultation of the Group Regulatory System;
- > strengthening of the Corporate Quality control system, through the introduction of effective tools for monitoring the development of the "Quality System a model for action" activities.

In response to the incident that occurred due to an explosion on board the vessel "Israfil Huseynov" that was operating in the Caspian Sea as part of the Shah

Deniz II project, a process of consolidation of the "Post-Traumatic Stress Disorders" psychological support for personnel involved in major emergencies was commenced.

For the purposes of Inter-Departmental cooperation and the integration of skills, two different working groups have been set up with participants from Corporate and the Services Centre, the first with the main objective of setting up and launching a tender for the provision of Occupational Medicine services for the 2020. The second Working Group focused on the technological implementation of the "Sì Viaggiare" app. With reference to the processing of personal data, as well as to the free circulation of the same (Regulation EU 2016/679, May 25, 2018) the process of updating the "GIPSI" software for the protection of individuals with regard to the processing of personal data, as well as the free circulation of such data has been completed.

Furthermore, as part of the progressive digitalisation and updating of existing tools, the pre-travel Health & Secur information system for all Saipem personnel destined to operate abroad was consolidated and made fully operational.

Again this year the commitment to health promotion in the field of "Fighting Smoking", No Smoking Building and second-hand smoke was reconfirmed, as well as cooperation within the scope of providing scientific support on Welfare initiatives within the Group.

DIGITAL ACTIVITIES, ICT SERVICES AND CYBER SECURITY

In 2019, Digital/ICT activities were divided into four global operating areas: the Corporate Digital Transformation function, focused on maximising the level of Digitalisation in Saipem; the Corporate ICT Services Centre, to support ordinary infrastructure management and ICT applications; for each Division, a Digital/ICT function for monitoring the Digital and ICT demand coming from the business; and finally, the introduction of an autonomous and independent department dedicated to the management of Cyber Security.

This structure places emphasis on the digital transformation initiatives of the Group which have been identified through the divisions, concentrating the Digital/ICT steering and management activities in the Digital Transformation function and the support to the internal information system maintenance in the ICT Services Centre while dedicating resources to the prevention and management of technological risk.

In strategic terms, Saipem has defined a multiannual Digital Transformation programme aiming to maximise the adoption of the digital technologies required for its business processes on its assets and new service lines.

The Digital Transformation programme sets three macro-objectives:

- bringing the impact of the digital initiatives defined by the business or needed to improve process effectiveness up to scale;
- enabling synergies and opportunities to be implemented throughout Saipem;
- accelerating the implementation of the initiatives.

The digital programme objectives will be pursued by: (a) exploiting digital solutions and innovative technologies, capturing industrial solutions as far as possible; (b) guaranteeing that all divisions increase their comparative advantage; (c) exploiting all the synergies and opportunities of "cross-fertilization"; (d) offering greater value, services and benefits to its clients.

Saipem has set up a specific governance board for the Digital Transformation programme, headed by the Chief Executive Officer, with the participation of the business and corporate directors at decision-making level and supported by a Digital Control Tower body, which monitors the day-to-day development of the programme and steers the Delivery Platforms (multidisciplinary teams) in their implementation of the initiatives.

The digital programme initiatives (around 220, in addition to the conventional ICT demand) were gathered "bottom-up" and then analysed and aggregated into uniform groups (clusters) in relation to the referred functional and technological drivers.

The clusters were prioritised using value logics (business cases) and specific staffing opportunities using the best resources available. Following an in-depth decision-making process, a first wave of digital initiative implementation focused mainly on the digitalisation of the core business, and specifically as of the date of preparation of this report activities have started in the following fields:

- *EPC Integration Model*, designed to improve the efficiency of core processes by digitalising the whole project life cycle, from feed to the engineering, procurement and construction cycle;
- *Digital Drilling Ops & Asset Management*, focused on improving the availability of our assets, reducing down times and increasing safety;
- *Transversal Corporate*, focusing on the transformation of staff processes in HSE, HR, Supply Chain, Procurement, Finance and General Services.

In the short and medium term, in a number of waves, the other priority clusters will also be started, focusing on digital cooperation with our clients, intelligent fleet management and other initiatives concentrated on data enhancement and the digital enhancement of our innovative technologies.

In parallel, the Digital Transformation function has set out a roadmap of technological transformation, aiming to rationalise and modernise its ICT assets (e.g. applications, platforms, architectures and infrastructure); this initiative is understood as a key enabler of the Digital programme described above.

In relation to the programme challenges, it is worth remembering the most significant and the actions underway or being studied in order to manage these:

- *Capacity and capabilities*: to guarantee the success of the programme, valuable resources must be dedicated and new competences acquired. In this respect, under consideration is the opportunity to make recourse to selected partners and vendors to support the programme implementation, as well as the acquisition of new competences, balancing the future growth of the organisation consistently with the characteristic cyclical nature of the business;
- *Change Management*: in this respect the Digital Transformation function has set up a specific unit, which will act as the orchestrator of change, implementing all the actions deemed useful for increasing the level of engagement and the adoption of new technologies;
- *Digital Architecture*: in this respect the Digital Transformation function has planned the introduction of a function for the development of application, data and infrastructural architectures.

Finally, it is also worth remembering some of the results obtained in the second half of the year: (a) the Customer Relationship Management platform was successfully

introduced in the XSIGHT, Offshore E&C and Onshore E&C divisions; (b) detachment from the Eni systems was completed in the payroll, attendance management, expense accounts and ancillary HR administration services fields; this programme of initiatives was also the first experience supported entirely by a change management programme involving over 6,000 people in Italy; (c) the platform supporting the HSE function was transformed to full-digital; (d) new professional figures joined the Digital Transformation team, with a 30% increase in the number of resources, confirming the recruitment trend for the coming years; (e) the Agile methodology was introduced in two business clusters, involving around 50 persons full time and training around 90 persons in specific master-classes; (f) the Global programme began for the adoption of productivity tools in the O365 field; (g) a tender was launched to identify the partner to support the transformation of the current ERP; (h) the re-design of the operational model and Digital/ICT processes began, aiming to strengthen the current one and increase the probability of success of the whole Digital programme; (i) active participation was seen in several national and international events on Digital transformation.

In the ICT Services field, compared to 2018, the IT Adaptive Sourcing project has entered a phase of adjustment following a fundamental revision of the IT services provided globally, with the aim of reducing unit costs and at the same time introducing new technical and architectural solutions. The project, which began in 2017, has led to an in-depth change in the ICT sourcing structure and the services management model since 2018, and from 2019 is in the fine tuning phase, with reviews and improvements where necessary.

The transformation of centralised infrastructure services was completed in 2019 with the residual migration activities towards private and public cloud infrastructures, absorbing the impact from additional activities introduced following the cyber attack which occurred in December 2018.

The transformation of the geographic network international connections, as well as of the local ICT services for foreign Group companies continues, as it does for current project sites and those in the process of acquisition. In this respect, consistently with the new cyber policies, new infrastructural, architectural and operational models have been identified to support the correct definition of the services required for the projects in developing or typically disadvantaged areas.

The transformation of management and business applications included in the scope of work of the IT Adaptive Sourcing project have been completed. The process of continuous improvement continues.

The extension of the new model is being adopted on Saipem fleet vessels with particular attention to the design aspects dictated by Cyber Security and with a significant contractual discontinuity in the satellite connectivity field, aiming to improve the service, increase the bandwidth and obtain greater operational flexibility.

In 2019, the first phase of re-definition of the governance function and orchestration of the ecosystem of suppliers supporting us in the delivery of ICT services was started and completed.

This re-definition involved a partial insourcing of key responsibilities, aiming to better structure the management of end-to-end services and moving towards a data-driven model of supplier management. Currently various general performance improvements have been recorded, as well as an increased use of the service management support platforms, with a significant increase in user satisfaction indices. This initiative was supported by intense change management activities, also involving training courses on the international standard ITIL and the revision of SLAs and KPIs.

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

New initiatives have been started in the infrastructural area as regards the tools for optimising and managing centralised infrastructures, with which numerous areas of technical analysis were covered for correct analysis, configuration and management of IT systems.

The experiments initiated with IT Adaptive Sourcing and the parallel development of methodologies and solutions to support smart working, have enabled the adoption of the Cloud e-mail service based on the Microsoft Office 365 collaboration suite. Migration was completed in 2019.

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

Cyber Security

In March 2019, the Cyber Security function was set up, reporting to the corporate Security function, in order to focus on the issue of risk associated with IT security after the cyber attack suffered by Saipem in December 2018.

The new function aims to verify compliance with and correct implementation of operational policies and guidelines for managing Saipem workplace safety. This approach applies both to the corporate and division structure and to projects, both for the security of the Information Technology infrastructures and for Operational Technology (industrial IT). The function used the NIST-CSF standard as a reference, set out in the National Framework for Cybersecurity and Data Protection (FNCS) and the EU Directive on Security of Network and Information Systems (NIS).

Saipem selected Leonardo as primary advisor and, according to what indicated, has adopted an organisational configuration suited to the implementation of the Cyber Security capabilities laid down in the model.

The restoration of the infrastructures that were affected by cyber IT attack was carried out following a tested and consolidated protocol using the most advanced protection tools on the market in order to increase the level of data security. The Compromise Recovery plan was organised into two phases: firstly, the adoption and implementation of an identity management segregation model (Active Directory) and the elimination of the vulnerabilities recorded by Microsoft during the post-attack analysis (Tier 0); secondly, a complex plan of interventions concerning Tier 1 (server) and Tier 2 (PC and mobile), as well as staff training and the review of Security Operations management processes. The first phase was completed last May, while the second phase will be completed in the first half of 2020.

The Cyber Security function has also defined a two-year Master Plan for the activities covering the period 2020-2021, which sets out numerous improvement initiatives relating to both the protection of company assets and the malware and cyber-attack

detection capacities and the ability to intervene to recover the impacted assets.

In this respect a Change Management programme was defined with significant cooperation between the Digital, ICT and Cyber functions and the external partners, aiming to change the security culture and conduct.

Although Saipem is not classified as a critical infrastructure and therefore is not subject to the European NIS Directive (Network Information Security), it has been included in the list of strategic companies at country level and therefore qualifies for institutional support for the performance of preventive activities, related to cyber threats and attacks. In this context, Saipem signed an operational protocol with the Prime Minister's DIS (Department of Information Security) for Threat Intelligence activities, as well as an agreement with the State Police for preventing and fighting IT crimes.

Saipem has strengthened its partnership with the Advisor Leonardo, that supports the company in the implementation of a CSIRT (Computer Security Incident Response Team) for the management of first and second level security measures, coordinating the activities carried out by the SOC (Security Operations Centre). This initiative is aimed at guaranteeing the continuous execution of technical updating measures and monitoring through adequate protection tools.

Several attacks were pro-actively prevented, the defined and implemented defence mechanisms performed their tasks very well and it can be stated that 2019 was the year of rebirth, following a very serious and virulent cyber attack suffered in 2019.

In 2019, Saipem was invited to attend a number of conferences, and organised and held several events during which it had the opportunity to discuss its own experience, the practices implemented and the results achieved, above all with the aim of disseminating the safety culture in an area that is strategic for the development of the country.

GOVERNANCE

The **"2019 Corporate Governance and Shareholding Structure Report"** (the "Report") pursuant to Article 123-*bis* of the Consolidated Finance Act has been prepared as a separate document, approved by the Board of Directors on March 12, 2020, and published on Saipem's website at www.saipem.com under the section "Governance". The Report was prepared in accordance with the criteria contained in the "Format for Corporate Governance and Shareholding Structure Reporting - 8th Edition (January 2019)" published by Borsa Italiana SpA, in the Corporate Governance Code (July 2018) and in the new Corporate Governance Code (January 2020). In line with the provisions of the new Code, Saipem will apply the new provisions from the first year starting after December 31, 2020, informing the market in its Corporate Governance Report to be published in 2022, with the exception of any immediately applicable provisions (gender quotas). The Report provides a general and complete framework of the corporate governance system adopted by Saipem SpA. They illustrate the Company profile and its underlying principles; they provide information on the shareholding structure and the subscription to the Corporate Governance Code (July 2018) and to the new Corporate Governance Code (January 2020) of any immediately applicable provisions (gender quotas), including the main governance practices applied and the key features of the internal control and risk management system; they contain a detailed description of the operation and composition of the administration and control bodies and their committees, also in view of the diversity policies adopted by Saipem and the policies of equal access to administration and control bodies of listed companies, as provided for in Italian Law No. 120/2011. Respecting the gender balance in the composition of administration bodies was targeted in new legislation (Italian Law No. 160 of December 27, 2019), aiming to extend the effects of the "Gulf-Moscow" Law. In particular, Italian Law No. 160 of December 27, 2019 came into force on January 1, 2020, introducing a new quota of the "less represented" gender in administration and control

bodies equal to two fifths of the members of the body, applicable for six consecutive offices from the relative entry into force.

Given that for boards with only three members the two-fifths quota is arithmetically impossible and therefore inapplicable, in its note of January 30, 2020 Consob clarified the application of the rule of rounding down rather than up, as currently provided for in the Issuers Regulation, further specifying that the interpretative clarification applies only to bodies with three members. The criterion of rounding up to the next unit remains valid for bodies with a different composition.

On February 25, 2020, following the review by the Sustainability, Scenarios and Governance Committee, the Board of Directors of Saipem adopted the amendments required to align the Articles of Association to the gender balance laws (Italian Law No. 160 of December 27, 2019). A detailed description of the roles, responsibilities and skills attributed to the administration and control bodies of the company is also provided in the Report.

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 under the section "Governance", the communication policy adopted for institutional investors and shareholders, the processing of company information, and finally on the internal management and disclosure to third parties of Company documents and information, with particular reference to significant inside information (Market Abuse - Internal Dealing and Insider Registry procedure).

The criteria applied for determining the remuneration of Directors are illustrated in the **"2020 Report on Saipem's Remuneration Policy and Paid Compensation"**, drafted in accordance with Article 123-*ter* of Italian Legislative Decree No. 58/1998 and Article 84-*quater* of the Consob Issuers Regulation. The Report is published in the "Governance" section of Saipem's website.

RISK MANAGEMENT

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

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

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

The Saipem Enterprise Risk Management model provides for the assessment of risks on a half-yearly basis at the Group, Corporate and division level and for the subsidiaries that are strategically relevant and that are identified on the basis of economic-financial and qualitative parameters. Risk assessment is performed by Saipem management through numerous meetings and workshops coordinated by the Corporate and division Enterprise Risk Management functions.

In particular, risk assessment is performed by assessing in detail the risk events that could impact Saipem's strategic and management objectives, taking into account the changes in the business and organisation model and Group procedures, developments in the external environment (specifically, political, economic, social, technological and legal aspects) and the relevant industry and competitors. Furthermore, Saipem has developed a process to monitor the Group's main risks on a quarterly basis through specific monitoring indicators on the evolution of risk and related mitigation activities.

Furthermore, starting from the analysis of materiality carried out by the Sustainability function (more information on this tool is present in the specific,

detailed section in the "Consolidated Non-Financial Statement"), a focus group was introduced to identify the main themes which, according to Saipem's senior managers, are the most risky for the Group and to assess the potential impact they may have.

Saipem is exposed to strategic, operational and external risk factors that may be associated with both Saipem's business activities and the business sector in which it operates. The occurrence of such risks could have negative effects on the Group's business and operations and on the financial position, performance and cash flows of the Group. The following are the main risk factors identified, analysed, assessed and managed by Saipem management.

These risk factors have been assessed by management for each individual risk in the framework of drafting the consolidated financial statements and, where deemed necessary, the possible liability was provided for in an appropriate provision. See the "Notes to the consolidated financial statements" for information on liabilities for risks provided for and the section "Guarantees, commitments and risks - Legal proceedings" in the "Notes to the consolidated financial statements" for most significant legal proceedings.

List of risks

1. Financial risks
2. Risks related to strategic positioning
3. Legal and tax risks
4. Risks related to technological development
5. Risks related to health, safety and the environment
6. Risks related to profit margins
7. Risks related to commercial positioning
8. IT risks
9. Risks related to human resources
10. Risks related to the supply chain
11. Business integrity risks
12. Risks related to political, social and economic instability
13. Risks related to business processes

1. Financial risks

Description and impact

The volatility of market conditions and the possible deterioration of the financial position of clients can cause delays in both payments from the clients for the services provided based on the contractual provisions and acknowledgement and payment of change orders and claims relating to contracts under execution. These cash flow fluctuations may occur despite the fact that the contractor and client cooperate in the search for an agreement that satisfies both parties, with the aim of not compromising the correct performance of works and of not delaying the completion of the project. Therefore, Saipem is exposed to the deterioration of working capital

exposing the Group to economic and financial impacts, as well as a deterioration of the reputation in the industry and in the financial markets.

Furthermore, the Group is exposed to numerous financial risks: (i) the market risk deriving from exposure to fluctuations in interest rates and exchange rates and from exposure to commodity price volatility; (ii) the credit risk deriving from the possible default of a counterparty; (iii) the liquidity risk deriving from the lack of adequate financial resources to face short-term commitments; (iv) the downgrading risk deriving from the possibility of a deterioration in the credit rating assigned by the main rating agencies (more information in the specific section "Financial risks" in the "Notes to the consolidated financial statements"). Furthermore, changes to national tax systems, tax incentives, rulings with tax authorities, international tax treaties and, in addition, risks associated with their application and interpretation in the countries where the Group's companies operate expose Saipem to tax risks.

Mitigation

The Group has equipped itself with various techniques that it implements beginning from the negotiation phase with the aim of obtaining the most favourable conditions, such as contractually agreed advance payments, and of monitoring its contracts through stringent procedures to obtain the certifications necessary to proceed to invoicing, or by constant reporting to the client of all changes to the contract or to project execution, so as to maintain positive or neutral cash flows during the various phases of the project execution.

Saipem constantly monitors changes in tax regulations and compliance with them in order to minimise the impacts due to its operating activities in all countries of interest through internal resources and tax consultants.

2. Risks related to strategic positioning

Description and impact

The definition of strategies implemented by Saipem is based on analysis of macroeconomic and geopolitical scenarios of the relevant markets and the technological developments applied to them. Saipem also operates in an industry strongly characterised by strategic changes, also through the ever greater concentration of competitors via mergers and acquisitions and the creation of joint ventures and alliances locally or internationally and technology developments in services that are of interest to Saipem.

Furthermore, Saipem's strategic positioning can be influenced by changes in client requests and in general by changes in demand in the reference sectors. Inadequate forecasts of the evolution of these scenarios, as well as the incorrect or delayed implementation of identified strategies may expose the

Group to the risk of not being able to adjust the asset portfolio and therefore competitive positioning to changes in scenarios that are applicable to the reference industry.

Therefore, these risks potentially could result in a deterioration of strategic positioning within the sector, reducing market shares and the Group's margins. In addition, this context can lead to the risk of concentration on some clients, in some geographic areas or on some products.

Mitigation

In order to ensure a strengthening of the Group's competitive positioning in line with the changing strategies of the industry and the ever-changing competition, Saipem implemented a divisional business model.

Furthermore, Saipem avails itself of companies which are specialised in providing periodic analyses and estimates on relevant market segment trends and on macroeconomic, geopolitical and technological developments.

Furthermore, the Group created the Sustainability, Scenarios and Governance Committee, which is responsible for assisting the Board of Directors in its review and development of scenarios in order to prepare strategies.

To ensure that Saipem's strategic positioning is strengthened, the Group management pursues business opportunities with a broad focus on the various clients in the energy sector (International Oil Companies, National Oil Companies, Independents, Utilities), with a global perspective on the reference markets and with a broad portfolio of products in Oil&Gas, in renewable energy and infrastructure (specifically high speed trains).

3. Legal and tax risks

Description and impact

The Group is currently a party in judicial, civil, tax, in Italy and abroad, and administrative legal proceedings. Given the intrinsic and unavoidable risk that characterises legal proceedings, while the Group has carried out the necessary assessments, including on the basis of applicable reporting 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 provision for legal proceedings, 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 Group, should it not be possible to settle the disputes by means of negotiation, the Group may have to bear further costs associated with the length of court hearings.

In addition, the progress of legal and tax proceedings exposes Saipem to potential impacts on its image and reputation in the mass media or with clients and partners.

Mitigation

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

4. Risks related to technological development

Description and impact

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

Mitigation

In order to maintain its competitive position, Saipem updates the technology, assets and licenses at its disposal, with the aim of aligning its offer of services to the current and future needs of the market. Therefore, in addition to the extremely important experience of incremental research and development, which continues to be a key strategic point, Saipem has rolled out an initiative called the "Innovation Factory", which is an incubator of ideas to develop "disruptive" methods and technologies to face industry challenges. An emerging area of interest for the "Innovation Factory" is linked to technologies aimed at increasing energy efficiency in operations and technologies in the decarbonisation of energy (more information in the specific section "Research and development"). Saipem is supported by companies specialised in analysing the technological evolution in the reference market segments and the prospective solutions that clients may require in the following years (for example, in the renewable energy sector); lastly, the Group enters into agreements of various kinds both with companies that develop technological solutions in the energy industry and also in other industries (for example, in the field of digitisation) and with universities and research centres.

5. Risks related to health, safety and the environment

Description and impact

The activities carried out by Saipem in both operational projects and projects related to upgrades, maintenance or disposal of assets, using internal staff and/or subcontractors, expose the Group to potential accidents that may cause negative impacts on the health and safety of people and the environment.

Additionally, Saipem is subject to laws and regulations for the protection of health, safety and the environment at national and international level when conducting its operations.

Despite the major effort made by Saipem, it cannot be excluded that, in the course of normal group activities, events that could compromise the health of people or the environment may occur. Furthermore, the occurrence of such events could lead to civil and/or criminal sanctions against the parties responsible and, in some cases of violation of safety laws, to the application of the provisions of Italian Legislative Decree No. 231/2001, with subsequent costs linked to sanctions against Saipem and to the fulfilment of legal and regulatory obligations concerning, health, safety and the environment, as well as having an impact on Saipem's reputation.

Moreover, in order to execute EPCI projects, drilling services and other services in the energy industry, the Group owns numerous assets, in particular specialised naval vessels (for example, for laying pipelines and lifting structures), Offshore and Onshore drilling rigs, production/treatment/storage and transport vessels commonly referred to as FPSO, Onshore equipment (for example, for pipe laying), manufacturing yards and logistics bases. Therefore, the Group's assets are subject to the normal risks associated with ordinary operations and to catastrophic risks linked with the weather and/or natural disasters which can impact security and the safety of personnel and the environment. These risks connected with ordinary operations can be caused by: (i) mistaken or inadequate execution of manoeuvres and work sequences that lead to damage for assets or facilities; (ii) mistaken or inadequate ordinary and/or extraordinary maintenance. Despite the fact that Saipem has specific know-how and competencies, has implemented internal procedures for the execution of its operations and regularly carries out maintenance work on its assets in order to monitor their quality and level of reliability, it is not possible to exclude the occurrence of incidents on assets or facilities during the execution of works.

Mitigation

With reference to these risks, Saipem has developed an HSE (Health, Safety and Environment) management system which is in line with the requirements of laws in force and with international standards ISO 45001 for health and safety in the workplace and ISO 14001 for environmental management, and for which Saipem has obtained certification for the whole Group. Specifically, HSE risk management is based on the principles of prevention, protection, awareness, promotion, and participation; its aim is to guarantee the workers' health and safety and to protect the environment and the general well-being of the community.

Regarding the risks related to the safety and health of people, Saipem has introduced a series of specific mitigation initiatives, among which please note:

- the continuing and renewed implementation of the "Leadership in Health & Safety" (LiHS) programme, which aims to strengthen the corporate culture in the field of health and safety;

- various campaigns, for example “Life Saving Rules”, aimed at promoting awareness of dangerous activities and actions that each individual can have in place to protect themselves and others;
- the development of advanced occupational health and health surveillance activities.

Regarding the risks associated with safeguarding the environment, Saipem has developed a structured system of prevention, management and response to spills.

Regarding the risks related to environmental protection, Saipem has introduced various specific mitigation initiatives, among which please note:

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

Saipem promotes initiatives aimed at saving water and managing water risk, for example the creation of the Water Management Plan (more information is available in the specific section of the “Consolidated Non-Financial Statement”).

Lastly, for the mitigation of the risks related to asset management, Saipem incurs significant expenses for the maintenance of assets it owns and has developed various prevention initiatives, among which we highlight the implementation of the Asset Integrity Management System, a system that provides for the systematic management of critical elements, the identification of Key Performance Indicators and the creation of task familiarisation cards for managing the development of personnel assigned to specific roles or the use of critical equipment. Specifically, with regard to all vessels in the Group’s fleet, Saipem periodically renews certifications issued by the appropriate classification bodies and by flag state authorities following inspections which the classification bodies perform on group vessels. In addition, the vessels, based on the technical characteristics and the type of each ship, must meet the requirements of applicable international maritime law and laws regulating the Oil&Gas industry (more information is available in the specific section of the “Consolidated Non-Financial Statement”).

6. Risks related to profit margins

Description and impact

Saipem operates in the highly competitive sector of services for the Oil&Gas industry, an industry which is significantly influenced by the trend in hydrocarbon prices in international markets, determining an impact on the demand for services offered by the Group and the margins associated with them. For this reason, the Oil&Gas services industry has featured increasing competition on prices for contracts known as lump sum turnkey in Offshore and Onshore Engineering & Construction services and for rates of vessels in the Offshore and Onshore Drilling market.

Specifically, the preparation of bids and the determination of prices are the outcome of an accurate, precise and timely estimation exercise that involves various group departments and which is further integrated by a risk assessment to cover the

areas of uncertainty inevitably present in each bid (so-called contingency). Despite these efforts made by Saipem, over the life cycle of the contract the costs, revenue and, consequently, the margins that the Group realises on lump sum contracts, could vary significantly compared to the sums originally estimated for many reasons linked, for example, to: (i) bad performance/productivity of vendors and subcontractors; (ii) bad performance/productivity of Saipem’s workforce; (iii) changes in working conditions (so-called change order) not acknowledged by the client; (iv) worse weather conditions than those anticipated against the statistics available at the time; (v) a rise in the price of raw materials (e.g. steel, copper, fuel, etc.).

All of these factors in addition to other risks inherent in the sectors in which Saipem operates may imply additional costs, lost revenue and the subsequent reduction in margins from those originally estimated, leading to a decrease, perhaps even a significant one, of profitability or to losses on projects. The result of such significant differences could worsen the Group’s financial position and performance and damage Saipem’s reputation in the relevant industry.

Mitigation

To align its cost and competitive profile with changes in the reference sectors, Saipem has implemented a new business model based on five divisions.

In addition, in the current hydrocarbon price market scenario and the trend for demand in services in the reference business lines, Saipem is committed to applying the most advanced industry and project management best practices and to identifying and implementing various new initiatives and solutions to reduce its costs through more efficient processes and technologies.

7. Risks related to commercial positioning

Description and impact

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

Therefore, Saipem is exposed to the risk of non-strengthening or weakening of its commercial positioning, which could particularly affect some product lines or specific geographical areas. Lastly, this market context and cases of bad performance can cause complaints and even arbitration and disputes also with Saipem suppliers and subcontractors.

Mitigation

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

8. IT risks

Description and impact

The execution and performance of Saipem's activities depend significantly on the IT system that has been developed over the years. In particular, the Group's IT system is exposed to potential cyber attacks which may have various purposes. Therefore, the non-functioning, ineffectiveness and inefficiency of IT systems can impact on business processes which may have economic and financial impacts and may damage the Group's reputation. Failure to develop innovative IT solutions by Saipem could compromise the Group's technological development and as a result, the achievement of its short or long-term objectives (more information is available in the specific "Digital transformation, ICT services and cyber security" section).

Finally, Saipem is committed to taking on the challenge and the resulting risks related to the exploitation and enhancement of data and information in order to maintain and strengthen its competitive position in the Engineering & Construction, Drilling and engineering sectors with high added value.

Mitigation

Saipem has developed a new transformation project, called IT Adaptive Sourcing, with various objectives including the objective of taking the Group through the digital transformation process and the containment of operating costs. To this end, Saipem has selected IT technological and service partners, launching an extensive review of the supply of IT services with the

aim of introducing the concept of a supply ecosystem. This ecosystem concept is aimed at ensuring that Saipem's needs are covered thanks to the effort to cooperate made by the vendors in light of supporting necessary actions both for the single areas and for those activities that intrinsically require cooperation and integration.

In addition, Saipem established various IT initiatives for the business environment, focusing on the strategic assumption of developing a data-centric approach for the business and a progressive and complete digitalisation of the Group's work processes. In particular, business developments have been oriented towards the automation of processes and the enhancement of internal information and data assets. Lastly, the Group has established governance activities, as well as compliance and security processes carried out by the IT department making the most of the most advanced uses of tested and consolidated IT security technologies and protocols. They have the goal of preventing and mitigating the risk of security threats regarding data processing required by group IT systems. Specifically, for the prevention and mitigation of cyber attacks, Saipem relies on IT service vendors to constantly monitor the risk and to use the main prevention and defence tools available on the market (more information is available in the specific "Digital transformation, ICT services and cyber security" section).

9. Risks related to human resources

Description and impact

The Saipem Group relies to a significant degree on the professional contribution of key management personnel and highly specialised individuals. By key management personnel is meant "Senior Managers with strategic responsibilities" (further information can be found in the specific detailed section in the "2019 Remuneration Report"). By highly specialised individuals, on the other hand, is meant personnel who, on the basis of their skills and experience, are vital to the execution of projects and to the growth and development of Saipem.

If this relationship between Saipem and one or more of the resources mentioned should be interrupted for any reason, there are no guarantees that the Group can restore it quickly using equally qualified individuals who can ensure the same operational and professional contribution in the short term.

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

Furthermore, working on international markets, the development of Saipem's future strategies will depend significantly on the Group's ability to attract and retain highly qualified and competent personnel with a high level of diversity in terms of age, nationality and gender. Lastly, the regulatory developments in labour

law in the countries where Saipem operates exposes it to risks of various kinds in the management of human resources, which can cause internal inefficiencies and disputes.

Mitigation

With the goal of preventing and mitigating these risks Saipem is committed to investing in generational balance, encouraging the development and growth of younger resources, as well as motivating and retaining the most experienced resources, in order to ensure the protection of the distinctive and strategic skills for Saipem through several different initiatives.

In this regard, the Human Resources Development Committee was set up, with the objective of monitoring and guiding the development and career of young people, as well as assessing their professional and managerial paths in a universal manner.

Furthermore, the aim of the Remuneration Policy, whose primary tools and objectives are defined in the Remuneration Report, is to attract, motivate and retain high-profile professional and managerial resources, and align management's interests aiming at value creation for shareholders in the medium-long term. Saipem has adopted an innovative model for the management of human capital based on skills with the aim of better directing energies and professional figures to the areas in need and ensuring greater flexibility in the development of personal and professional skills at all levels.

The continued expansion of the Group into areas and activities that require further knowledge and skills require plans to employ management and technical personnel, both international and local, with different skills.

As defined in the Code of Ethics, in full compliance with applicable legal and contractual provisions, Saipem undertakes to offer equal opportunities to all its employees, making sure that each of them receives a fair statutory and wage treatment exclusively based on merit and expertise, without discrimination of any kind. Additionally, the Group monitors the legislative developments relating to personnel management in all the countries in which it operates or is interested in entering, availing itself of labour law consultants.

10. Risks related to the supply chain

Description and impact

In executing its projects, and in the normal course of its activities, the Group relies on numerous vendors of goods and services, subcontractors and partners. Any inadequate performances by vendors, subcontractors and partners could generate deficiencies in the supply chain and, consequently, lead to: additional costs linked to the difficulty in replacing vendors that provide goods and services, subcontractors and partners identified to carry out the activities; the procurement of goods and services at higher prices or delays in the completion and delivery of projects.

In addition, Saipem is exposed to risks related to any unethical behaviour by vendors, subcontractors and partners in the different countries in which it operates.

A deterioration in relations with vendors, subcontractors and partners could turn into a competitive disadvantage linked to a reduction in Saipem's negotiating power, with subsequent increases in time and costs, a worsening of contract terms and a deterioration of commercial relations with the client and of results and a negative impact on Saipem's competitive position.

Mitigation

With the aim of preventing and mitigating these risks, the Group has adopted a structured qualification and selection system in order to work with reliable vendors and subcontractors with a consolidated reputation. Furthermore, the services of vendors and subcontractors are constantly monitored and the responsible functions of Saipem are required to provide feedback. Moreover, Saipem is monitoring the impacts on the supply chain, in terms of continuity and timing of supplies, of the recent Coronavirus pandemic.

To mitigate and prevent the risks associated with unethical behaviour by vendors and subcontractors, Saipem uses various tools, checks and training programmes.

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

11. Business integrity risks

Description and impact

Although Saipem conducts its business with loyalty, fairness, transparency, integrity and in full compliance with laws and regulations, the Group is subject to the risk of fraud and/or illegal conduct by employees and third parties (for example, corruption, lack of transparency, leaking confidential information, non-compliance with group procedures and regulations).

Specifically, Saipem carries out its business activities together with subcontractors, vendors and partners that could commit fraudulent acts in concert with employees to the detriment of the Group.

Furthermore, the Group operates in various countries characterised by a high level of fraud and corruption, referred to in the "Corruption Perception Index" of Transparency International.

In the context of risks related to possible fraud or illegal activities by employees or third parties, Saipem is also exposed, in particular, to risks related to the protection of information and know-how, as the Group in the performance of its activities relies on information, data and know-how, of a sensitive nature, processed and contained in documents, also in electronic format, unauthorised access to which and disclosure of by employees or third parties may represent fraud or illegal activities, as well as causing damage to Saipem. Lastly, it cannot be excluded that non-compliance

issues or incorrect application of the European Data Protection Regulation (GDPR) may occur within the Group, which could result in the application of sanctions to the detriment of Saipem.

Mitigation

Among the various initiatives to mitigate these risks, Saipem has designed an "Anti-Corruption Compliance Programme", which consists of a detailed system of rules and controls, aimed at preventing corruption in line with international best practices and with the principle of "zero tolerance" expressed in the Code of Ethics. In particular, Saipem's "Anti-Corruption Compliance Programme" is dynamic and is constantly focused on the evolution of the national and international regulatory framework and of best practices.

In addition, Saipem's Code of Ethics (included in Model 231) establishes that "corruption practices, illegitimate favours, collusion, solicitation, directly and/or through third parties of personal and career advantages for oneself or others, are without exception prohibited". Additionally, Saipem carries out periodic audits and checks, also with the assistance of external consultants. Furthermore, even if Saipem has constantly updated, within all group companies, its internal control system, the Model 231 which includes the Saipem Code of Ethics, as well as an organisation management and control model for Group companies (including those in foreign countries), it is not entirely possible to exclude the occurrence of fraudulent or unlawful conduct.

Saipem provides employees and stakeholders with an information channel – overseen by the Compliance Committee in a way that ensures confidentiality – through which it is possible to report any problems related to the internal control system, financial reporting, corporate administrative liability, fraud or other topics (i.e. violations of the Code of Ethics, mobbing, theft, personnel security, etc.).

Furthermore, over the years Saipem has developed a management system that has recently received the International Standard ISO 37001 - Anti-Corruption Management Systems certification, which is an important safeguard in the prevention and fight against corruption, as this ISO 37001 standard defines requirements and provides a guideline to help an organisation prevent, detect, respond to corruption and comply with anti-corruption legislation and any other voluntary commitments applicable to its activities.

For the management of these risks related to the leak of confidential information, it should be noted that Saipem makes use of IT security technologies and procedures to mitigate this exposure (more information in the specific "Digital transformation, ICT services and cyber security" section). Lastly, Saipem has adopted principles and rules to be followed by the Group in its internal management and external communication of corporate documents and information regarding Saipem, with particular reference to inside information (more information is available in the specific section in the "Corporate Governance and Shareholding Structure Report").

Lastly, beginning in April 2018 Saipem developed an ad

hoc Privacy Organisation Model aimed at guaranteeing compliance with the European directive on data protection (General Data Protection Regulation - GDPR).

12. Risks related to political, social and economic instability

Description and impact

Substantial portions of Saipem's operations are performed in countries which may be politically, socially or economically unstable or at risk to terrorist threats. Developments in the political framework, economic crises, internal social unrest and conflicts with other countries, terrorist attacks and embargoes may temporarily or permanently compromise the Group's ability to operate efficiently in such countries, as well as its ability to recover group assets therein, or may require specific measures (where possible in compliance with Saipem corporate policy) to be taken at an organisational or management level in order to enable the continuation of activities under way in conditions that differ from those originally anticipated. Moreover, Saipem's operations, staff, and assets are located in many countries which are potentially exposed to the threat of terrorism on a global scale by various types of extremist groups. Additional risks associated with operations in these countries are: (i) the absence of a stable legislative framework and the change in 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 group'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 lead to reductions in the value of the assets, forced divestment and expropriation; (iv) restrictions of varying nature on the activities of construction, drilling, import and export; (v) changes in local regulations that impose the use of certain numbers of staff, and goods and services supplied by local companies (so-called "local content").

Moreover, amongst other things the regulatory framework also impacts the methods with which Saipem carries out its activities. Any adoption of more restrictive or unfavourable regulations, or the imposition of obligations for compliance, or further requirements linked to Engineering & Construction and Drilling activities, may lead to changes in operating conditions and require an increase in investments, production costs or, at any rate, to a slow-down in the development of activities. Any violations of health, safety and environmental laws could lead to limitations to the Group's activities or to fines, sanctions or penalties in the event of non-compliance with environmental and health and safety laws and regulations.

Lastly, considering that Saipem carries out its business activities in a global context characterised by the management of diversity deriving from

socio-economic, political, industrial and regulatory contexts, the Group is exposed to multiple situations regarding relations with staff and, where present, with trade unions. Such relationships, if not properly managed, can expose the Group to risks associated with relationships with personnel and possibly with trade unions which, can generate extra costs and impact the timing of the activities carried out in Saipem's operational offices and projects, as well as having negative repercussions on Saipem's image and reputation.

Mitigation

Saipem is committed to constantly and closely monitoring the political, social and economic developments and terrorist threats in the countries of interest, both through specialised group resources and through providers of security services and information analyses.

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

In cases where Saipem's ability to operate is compromised, demobilisation is planned according to the criteria of protecting personnel and, if necessary, group assets and of minimising interruptions to operations through the adoption of solutions that render more rapid and less costly the recommencement of ordinary activities once favourable conditions are restored. These measures can increase costs and delays and have a negative impact on the profitability of projects executed in such countries.

Furthermore, Saipem constantly monitors changes in regulations of a various nature and compliance with them in order to minimise the impacts due to its operating activities in all countries of interest. Lastly, in support of its presence in the countries and in order to mitigate the impact of its operating activities on local economies and the risks generated by relationships with subjects operating in the same areas, Saipem adopts a system of engagement with its local stakeholders, with the goal of maintaining dialogue and consolidating relationships and creating shared value, especially through active participation in the socio-economic development of the areas in which it operates.

In addition, Saipem has faced and is continuing to manage the complex adjustment of the workforce to the significant changes in the market in which it operates on

the basis of a new divisional business model taking into account the relationships with both the staff and with trade unions in the countries where it operates.

In fact, in order to mitigate and prevent these risks, Saipem has configured an approach of maximum awareness to industrial relations in the countries in which it operates. Specifically, Saipem is committed to strengthening relations and communication with staff, trade unions and reaching and renewing specific agreements with the social partners involved.

13. Risks related to business processes

Description and impact

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

Mitigation

The Group has launched several initiatives aimed at recovering efficiency and effectiveness in which particular emphasis was placed on the rationalisation of business processes. The divisionalisation process occurred at the same time and had the aim of leading to a greater focus on business activities by allocating directly to the divisions many activities and processes that were previously monitored centrally in Corporate. Finally, Saipem has embarked on a path to improve the work organisation model that is going through a cultural, technological and digital change and that can positively contribute to the achievement of its results through increases in efficiency and effectiveness. In order to adapt quickly to these cultural changes, initiatives aimed at dematerialisation and digitisation are ongoing.

Transfer of risks to the insurance market

In close cooperation with top management the Corporate insurance function annually defines the Saipem Group's guidelines on insurance coverage against residual risks of material damages and civil liability, and those deriving from contracts taken on. An insurance programme is defined on the basis of the guidelines, which identifies specific excess and maximum limit coverage for each type of risk based on an analysis that takes into account claim records for recent years, industry statistics and conditions offered by the international insurance market.

The Saipem insurance programme is structured in such a way as to appropriately transfer risks deriving from operations to the insurance market, in particular the risks associated with the management of the fleet, equipment and other assets, including third party liability risks, those relating to Saipem personnel, cyber security 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 group, with amounts in excess covered by a catastrophic insurance programme taken out on the insurance market.

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

Material damages

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

Third-party liability

- > "Protection & Indemnity" ("P&I") policy: shipowners' liability cover through a P&I Club that is part of the International Group of P&I Clubs for events occurring during transit and/or for events occurring during offshore drilling and construction operations;
- > "Comprehensive General Liability" policy: covers all

other types of general and third party liability claims arising from Saipem's industrial activities and supplements previous P&I coverage;

- > "Employer's Liability" and "Personal Accident" policies: these cover employer liability and employee accident risks respectively on the basis of the specific regulations in force in each country where the Group operates;
- > "Directors & Officers" ("D&O") policy: it covers the responsibilities of the administrative and control bodies, as well as managers, of the parent and its subsidiaries in the performance of their mandates and duties.

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

Insurance policies relating to the execution of projects

For all contracts assigned there must be specific project insurance coverage in place and said coverage generally falls within the client's contractual scope of responsibility.

In cases where such coverage instead falls within the contractor's scope of responsibility, Saipem defines an insurance suitable for covering all project-related risks, for the entire term.

Usually it takes out "Builders' All Risks" insurance, which covers the scope of work of the contract, i.e. damage to the works under construction, as well as to equipment, products and materials required for its construction and third party liability for all works to be performed by the Group during all phases of project execution (engineering, transportation, construction, assembly, testing) including the contractual guarantee period.

The high level of insurance premiums and excess amounts payable on these policies lead Saipem to implement continual improvement of prevention and protection processes in terms of quality, health, safety and environmental impact.

ADDITIONAL INFORMATION

Long-term Incentive Plan 2019-2021

On October 24, 2019, the Board of Directors resolved, following a proposal of the Compensation and Nomination Committee, to implement for 2019 the long-term share-based incentive Plan 2019-2021 (the "Plan"), approved by the Shareholders' Meeting on April 30, 2019, which provided for the free allocation of Saipem ordinary shares upon achievement of the company's performance goals. The Board of Directors determined the total number of treasury shares necessary to service the Plan as 7,934,080.

Regulation on Markets

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

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

- i. as at December 31, 2019, the regulatory provisions of Article 15 of the Regulation on Markets applied to the following 19 subsidiaries:
 - > Boscongo SA;
 - > ER SAI Caspian Contractor Llc;
 - > Global Petroprojects Services AG;
 - > Petrex SA;
 - > PT Saipem Indonesia;
 - > Saimexicana SA de Cv;
 - > Saipem America Inc;
 - > Saipem Canada Inc;
 - > Saipem Contracting Nigeria Ltd;
 - > Saipem do Brasil Serviços de Petróleo Ltda;
 - > Saipem Drilling Norway AS;
 - > Saipem India Projects Private Ltd;
 - > Saipem Misr for Petroleum Services (S.A.E.);
 - > Saipem Offshore Norway AS;
 - > Saipem Services Mexico SA de Cv;
 - > Saudi Arabian Saipem Ltd;
 - > Sigurd Rück AG;
 - > Snamprogetti Engineering & Contracting Co Ltd;
 - > Snamprogetti Saudi Arabia Co Ltd Llc.
- ii. Procedures designed to ensure full compliance with the aforementioned regulations have been adopted.

Disclosure of transactions with related parties

Transactions concluded by Saipem with related parties essentially regard the exchange of goods, the

supply of services, the provision and utilisation of financial resources including entering into derivatives contracts. All transactions form part of ordinary operations, are settled at market conditions, i.e. at the conditions that would have applied between two independent parties, and are concluded in the interest of Group companies.

Directors, auditors, general managers and key management personnel must declare, every 6 months, any transactions they enter into with Saipem SpA or its subsidiaries, directly or through a third party.

Directors and Statutory Auditors provide every six months and/or in the event of a change, a statement in which each potential interest is represented in relation to the Company and the Group and in any case report to the Chief Executive Officer (or the Chairman where the Chief Executive Officer is involved), who informs the other directors and the Board of Statutory Auditors of the individual transactions that the parent intends to perform, in which they have direct interests.

At December 31, 2019, Saipem SpA is not subject to the management and coordination of other parties. Saipem SpA manages and coordinates its own subsidiaries pursuant to Article 2497 ff. of the Italian Civil Code.

The values of transactions of a trade, financial or other nature entered into with related parties are illustrated in Note 39 of the "Notes to the consolidated financial statements".

Outlook and events after the reporting period

COVID-19 pandemic

Saipem has launched its analysis, still in progress due to the ongoing evolution of the situation, of the possible effects of the COVID-19 pandemic ("Coronavirus"), in terms of: (i) evolution of the reference contexts and in particular monitoring the measures taken by the countries in which Saipem operates; (ii) management of relations with customers and partners; (iii) activation of specific contractual clauses; (iv) impact on project execution, particularly on operations at worksites and on naval vessels, due to changes in the availability of internal and external resources and/or other circumstances resulting, directly or indirectly, from the pandemic; (v) levels of performance and continuity of service by suppliers, subcontractors and partners. Since the outbreak of the Coronavirus pandemic worldwide and in Italy in particular, Saipem has been working relentlessly to guarantee the health and safety of its employees, customers and suppliers, in compliance with the indications provided by the Italian Ministry of Health and the Regions involved. Saipem promptly activated its Crisis Response Protocol, developing a specific Crisis Response Plan and immediately put in place a series of measures at all

levels of the organisation both at headquarters and on the projects and working sites abroad, involving all the relevant functions. The Saipem Crisis Unit in Milan is open 24/7 and is constantly in contact providing coordination with the parent's 52 Local Crisis Units worldwide; it periodically reviews the situation daily and adjusts the status of the action plan with the Corporate Crisis Committee chaired by the CEO.

All travel abroad, to and from risk areas, has been cancelled or reduced to a minimum, and will be limited to guaranteeing operational requirements, also considering that specific limitations may be placed on travelling to and from Italy.

Saipem has also been making wide use of the smart working option, which involves almost the entirety of its resources in Italy, to ensure seamless continuity vis-à-vis the requirements of projects currently under execution.

With regard to **financial stress scenario**, the Finance Department of Saipem SpA is constantly monitoring the Group's current and prospective liquidity. For the control and efficient use of its liquidity, the Saipem Group avails itself, among other things, of a central cash pooling system and automatic reporting tools. As of March 12, 2020, the date this Report was approved by the Board of Directors, no significant impacts were reported on activities of collection or payment due, directly or indirectly, to the spread of the Coronavirus contagion worldwide.

As of that date, cash and cash equivalents were in line with financial programming and appeared adequate to cover current and prospective operating needs.

The financial debt of the Saipem Group does not show any amounts of significant size payable in 2020 and 2021 as the Group recently repaid in advance the loan of €500 million that would have been due in 2021. The next significant payment deadlines, relative to three bond issues for €500 million each, are not due until April 2022, 2023 and 2025.

A further safety margin is represented by the Revolving Credit Facility ("RCF") line of €1 billion, which will expire in 2023, and which to date is completely unused, as well as lines of "non committed hot money" for about €240 million.

In conclusion, as of March 12, 2020, the date this Report was approved by the Board of Directors and published, there were no signs of potential financial stress.

The Finance Department of Saipem SpA remains fully operational and guarantees constant and complete monitoring of liquidity.

With regard to the recent turbulence in the **oil price** at the beginning of March, the outcome of the OPEC meeting in early March and Saudi Arabia's decision to increase its production of crude oil, combined with the effects of the Coronavirus epidemic, perceived as impacting potential future demands, caused a sharp drop in oil prices.

This sharp drop in prices and the imbalance prospects between oil supply and demand has prompted the major oil companies to reduce their spending estimates for 2020, and to re-evaluate those for 2021 (assessments are ongoing), dragging down the stock prices of companies in the oil value chain, including Saipem and other companies operating in the energy services sector.

The Saipem share price, at the close of April 1, 2020,

recorded a 49% drop from the beginning of 2020, outperforming its main peer groups, both in engineering and construction, and drilling.

The continuation of low oil prices could substantially affect future investments decisions by oil companies, even beyond the current year.

It should be noted that Saipem designs and constructs systems commissioned by clients on the basis of long-term investment assessments, whose realisation from the initial concept phase of the initiative, through development and construction, takes on average between four and seven years, depending on the complexity of the project.

Due to the nature of its the business and the diversification in various segments, there is no direct correlation between the trend in oil prices and Saipem's financial results; whose E&C backlog, at the end of 2019, was made up of approximately 68% of non-oil projects, including LNG and renewables. On the basis of the available information currently available, the COVID-19 pandemic, in line with the application of the international accounting standards, has been classified as a "Non Adjusting" event (IAS 10) event; as recommended also by ESMA's recent communication, the nature of the event has been described in this section and, given the context of general uncertainty, there are no elements to quantify its impact.

At year end the record backlog level, combined with good visibility in the short-term on current commercial tenders, underpin revenues for 2020 at around €10 billion, with an adjusted EBITDA above €1.1 billion (post-IFRS 16). Capital expenditure is expected to increase to around €600 million, also considering the postponement of some 2019 initiatives and activities. The evolution and persistence of the epidemic around the world could have non-quantifiable and significant effects on the commercial and operational activities and consequently on the Group's economic and financial position, also in light of the following:

- construction yards and logistical bases: limited productivity due to travel to and work restrictions at operating sites, as well as delays in engineering activities;
- ongoing projects: reductions in the scopes of work, interruption of projects due to "force majeure", slowing down of activities due to a reduction in project personnel, requests for discounts from clients on drilling rates, problems relating to the rotation of personnel abroad and rota team changes;
- current commercial tenders: lengthening of contract award timeframes in 2020 and the postponement of contract awards from 2020 to 2021 with an increase in assets being idle.

The Company is working to quantify the relevant impacts and, only following this analysis, it will be in a position to review the annual estimate forecasts and to reschedule the timing for the verification and the possible re-elaboration of the Strategic Plan.

Repayment of the bond issue "€500,000,000 3.000% Notes Due 8 March 2021"

As of January 31, 2020, with reference to the bonds named "€500,000,000 3.000% Notes Due 8 March 2021" (the "Bonds") issued by Saipem Finance

International BV with reference to the Euro Medium Term Note Programme, Saipem Finance International BV decided to exercise its pre-payment option for 100% of the nominal amount of the Bonds in circulation according to the terms and conditions regulating the Bonds. The bonds were pre-paid on March 3, 2020.

New contracts

As announced on February 6, 2020, Saipem has been awarded new EPCI contracts in several countries around the world: for Saudi Aramco, a Long Term Agreement contract in force until 2021 in Saudi Arabia; for Eni Angola, a development contract for the Cabaça field and the Agogo preliminary phase 1 in Western Africa; on behalf of Noble Energy, a contract for the installation of an offshore gas pipeline connecting the Alen platform to Punta Europa on the coast of Equatorial Guinea; other smaller contracts relating to the decommissioning of existing infrastructures on the Thistle field in the North Sea, to be performed by the Saipem 7000 and two offshore transport and installation contracts in the Middle East and the Gulf of Mexico.

Distribution of dividends

The Board of Directors resolved to propose to the Ordinary Shareholders' Meeting, convened for April 29, 2020 (single call), to approve an ordinary dividend, arising from distributable reserves comprising retained earnings, of €0.01 per ordinary share and savings share as, pursuant to Article 6, paragraph d) of the Articles of Association, "in the case of distribution of reserves, savings shares have the same rights as other categories of shares issued by the Company". The dividend will be paid out on May 20, 2020 (dividend date May 18, 2020 and record date May 19, 2020).

Short-term Incentive Plan 2021-2023

On March 12, 2020, the Board of Directors, having obtained the approval of the Board of Statutory Auditors pursuant to Article 2389, section 3 of the Italian civil code, resolved to submit for the approval of the Shareholders' Meeting the adoption of a short-term variable incentive Plan for the three-year period 2021-2023, linked to the performance in the years 2020-2022 (the "Plan"), developed according to a proposal of the Compensation and Nomination Committee, made up entirely of non-executive and independent Directors.

In addition, the Board of Directors resolved, following a proposal of the Compensation and Nomination Committee, to submit the following proposal to the Shareholders' Meeting for authorisation to repurchase treasury shares:

- up to a maximum of 3,500,000 ordinary shares and, in any case, for a maximum amount of €17,200,000, to be assigned to the 2021 attribution of the short-term Incentive Plan 2021-2023.

The authorisations for the repurchase of treasury shares are requested for a period of eighteen months from the date of the resolution of the Shareholders' Meeting.

Buy-back programme for Saipem ordinary shares to cover the 2019-2021 Long-Term Incentive Plan

As announced on March 18, 2020, over the period March 13-17, 2020 (inclusive), a total of No. 7,934,080 treasury shares (representing 0.785% of the share capital) were bought back, corresponding to the number indicated by the Board of Directors at their meeting of October 23, 2019, for 2019 attribution. All buy-back transactions were made on the regulated Computerized Trading Market MTA at an average price of €2.0775 per share, for a total counter-value of €16,505,959 (fees and taxes included). Accordingly, having regard for the other treasury shares already held at the start of the Programme (No. 14,724,205 shares, representing 1.46% of the share capital) and the treasury shares purchased under the Programme, at today's date Saipem holds 22,658,285 treasury shares representing 2.241% of the share capital.

In addition, the Board of Directors resolved, following a proposal of the Compensation and Nomination Committee, to submit the following proposal to the Shareholders' Meeting on April 29, 2020 for authorisation to purchase treasury shares:

- up to a maximum of 19,000,000 ordinary shares and, in any case, for a maximum amount of €93,000,000, to be assigned to the 2020 cycle of the long-term Incentive Plan 2019-2021.

Additional information

Pursuant to Article 20 of the Articles of Association, in conformity with Article 2365, second paragraph of the Italian Civil Code, the Board of Directors of Saipem SpA is responsible for amending the Articles of Association to comply with legislative provisions.

The Company's Board of Directors has verified that the provisions of the Articles of Association in force comply with the amendments introduced by Italian Law No. 160 of December 27, 2019 relating to gender balance, with the sole exception of Article 31 (which envisaged a transitional clause for the application of the previous legislation in force) and which has therefore been removed. The resolution of the Board of Directors and the new text of the Articles of Incorporation will be made available to the public in accordance with the law.

Secondary offices

The Board of Directors has resolved, by virtue of the powers attributed by Article 20 of the Articles of Association pursuant to Article 2365, paragraph 2 of the Italian Civil Code, the closure of the secondary office of Cortemaggiore, no longer operational, and the subsequent modification of Article 3 of the Articles of Association.

The resolution and the new text of the Articles of Association are made available to the public in accordance with the law.

Reconciliation of reclassified statement of financial position, income statement and statement of cash flows with the mandatory templates

Reclassified statement of financial position

(€ million)	Dec. 31, 2018		Dec. 31, 2019	
Reclassified statement of financial position items (where not stated otherwise, items comply with the mandatory template)	Partial values from the mandatory statement	Values from the reclassified statement	Partial values from the mandatory statement	Values from the reclassified statement
A) Net property, plant and equipment		4,326		4,129
<i>Note 15 - Property, plant and equipment</i>	4,326		4,129	
B) Net intangible assets		702		698
<i>Note 16 - Intangible assets</i>	702		698	
C) Right-of-use assets		-		584
<i>Note 17 - Right-of-use assets</i>	-		584	
D) Investments		78		106
<i>Note 18 - Equity investments</i>	119		133	
<i>Reclassified from F) - provisions for losses of investees</i>	(41)		(27)	
E) Working capital		584		162
<i>Note 10 - Other current financial assets</i>	34		180	
<i>Reclassified to L) - loan assets not related to operations</i>	(32)		(178)	
<i>Note 11 - Trade receivables and other assets</i>	2,610		2,601	
<i>Note 12 - Inventories and contract assets</i>	1,389		1,331	
<i>Note 13 - Current tax assets</i>	201		251	
<i>Note 13 - Other current tax assets</i>	117		167	
<i>Note 14 - Other current assets</i>	100		115	
<i>Note 14 - Other non-current assets</i>	67		55	
<i>Note 19 - Deferred tax assets</i>	250		297	
<i>Note 20 - Trade payables, other liabilities and contract liabilities</i>	(3,879)		(4,376)	
<i>Note 13 - Current tax liabilities</i>	(46)		(87)	
<i>Note 13 - Other current tax liabilities</i>	(108)		(139)	
<i>Note 21 - Deferred tax liabilities</i>	(92)		(45)	
<i>Note 21 - Other non-current liabilities</i>	(9)		(1)	
<i>Note 19 - Other current liabilities</i>	(18)		(9)	
F) Provisions for risks and charges		(289)		(226)
<i>Note 24 - Provisions for risks and charges</i>	(330)		(253)	
<i>Reclassified to D) - provisions for losses of investees</i>	41		27	
G) Provisions for employee benefits		(208)		(246)
<i>Note 25 - Employee benefits</i>	(208)		(246)	
H) Assets held for sale		2		-
<i>Note 27 - Assets held for sale</i>	2		-	
EMPLOYED CAPITAL, NET		5,195		5,207
I) Equity		3,962		4,032
<i>Note 28 - Equity attributable to the owners of the parent</i>	3,962		4,032	
L) Non-controlling interests		74		93
<i>Note 33 - Non-controlling interests</i>	74		93	
M) Net financial debt pre-IFRS 16 lease liabilities		1,159		687
<i>Note 8 - Cash and cash equivalents</i>	(1,674)		(2,272)	
<i>Note 9 - Financial assets measured at fair value through OCI</i>	(86)		(87)	
<i>Note 10 - Other non-current financial assets</i>	-		(69)	
<i>Note 22 - Current financial liabilities</i>	80		164	
<i>Note 22 - Non-current financial liabilities</i>	2,646		2,670	
<i>Note 22 - Current portion of non-current financial liabilities</i>	225		244	
<i>Reclassified from E) - loan assets not related to operations (Note 8)</i>	(32)		(178)	
N) Lease liabilities		-		610
<i>Note 16 - Net lease liabilities</i>	-		610	
O) Net financial debt		-		77
FUNDING		5,195		5,207

Reclassified income statement

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

- the items "other revenue and income" (€11 million), relating to "reimbursements for services that are not part of core operations" (€8 million), have been recorded as reductions to the corresponding cost items in the reclassified income statement;
- the items "financial income" (€515 million), "financial expense" (-€643 million) and "derivatives" (-€82 million), which are indicated separately in the mandatory template, are stated under the item "Net financial expense" (-€210 million) in the reclassified income statement.

All other items are unchanged.

Items of the reclassified statement of cash flows

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

- the items "depreciation and amortisation" (€615 million), "net impairment losses on property, plant and equipment and intangible assets" (€75 million), "other changes" (€153 million), "change in employee benefits" (€21 million) and "effect of accounting using the equity method" (€18 million), indicated separately and included in the net cash flows generated by operating activities in the mandatory template, are shown net under the item "depreciation/amortisation and other non-monetary items" (€882 million);
- the items "income taxes" (€130 million), "interest expense" (€119 million) and "interest income" (-€6 million), indicated separately and included in cash flows from working capital in the mandatory

template, are shown net under the item "dividends, interests and taxes" (€243 million);

- the items regarding changes in "trade receivables" (€92 million), to changes in "inventories" (€2 million), to "provisions for risk and charges" (-€7 million), to "trade payables" (-€139 million), to "other contract assets and liabilities" (€700 million) and "other assets and liabilities" (-€337 million), indicated separately and included in cash flows from working capital in the mandatory template, are shown net under the item "changes in working capital related to operations" (-€311 million);
- the items "interest received" (€5 million), "dividends received" (€6 million), "income taxes paid net of refunds of tax credits" (-€194 million) and "interest paid" (-€92 million), indicated separately and included in cash flows generated by operating activities in the mandatory template, are shown net under the item "dividends received, income taxes paid and interest paid and received" (-€275 million);
- the items relating to investments in "property, plant and equipment" (-€327 million) and "intangible assets" (-€9 million), indicated separately and included in cash flows from investing activities in the mandatory template, are shown net under the item "capital expenditure" (-€336 million);
- the items "increase in non-current loans and borrowings" (€432 million), "increase (decrease) in current loans and borrowings" (€83 million) and "decrease in non-current loans and borrowings" (-€389 million), indicated separately and included in net cash flows from financing activities in the mandatory template, are shown net under the item "changes in current and non-current loans and borrowings" (€126 million).

All other items are unchanged.

GLOSSARY

Financial terms

- > **Adjusted EBIT** operating profit net of special items.
- > **Adjusted EBITDA** gross operating margin net of special items.
- > **Beta** coefficient that defines the measure of the systematic risk of a financial asset, i.e. the trend of an asset's return in line with changes in the reference market. The beta is defined as the ratio between the probability of the expected return of a specific asset with the expected market return, and the variance of the market return.
- > **CGU** Cash Generating Unit refers to, as part of the execution of the impairment test, the smallest identifiable group of assets that generates cash inflows or outflows, deriving from the continuous use of assets, largely independent of the cash inflows or outflows from other assets or groups of assets.
- > **EBIT** earnings before interest and tax.
- > **EBITDA** earnings before interest, taxes, depreciation and amortisation.
- > **Headroom** (Impairment Loss) positive (or negative) excess of the recoverable amount of a CGU over the carrying amount of that unit.
- > **IFRS** International Financial Reporting Standards issued by the IASB (International Accounting Standards Board) and endorsed by the European Commission. They comprise International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretations Committee (SIC) adopted by the IASB. The name International Financial Reporting Standards (IFRS) has been adopted by the IASB for standards issued after May 2003. Standards issued before May 2003 have maintained the denomination IAS.
- > **Leverage** measures a company's level of indebtedness, calculated as the ratio between debt and equity including non-controlling interests.
- > **Receivables "in bonis"** total amount of receivables of a commercial nature, not expired or past due by no more than twelve months, towards clients deemed solvent.
- > **ROACE** (Return On Average Capital Employed) calculated as the ratio between the profit before non-controlling interests, plus net financial expense on net financial debt less the related tax effect and net average capital employed.
- > **Special items** items of income arising from events or transactions that are non-recurring or that are not considered to be representative of the ordinary course of business.
- > **WACC** Weighted Average Cost of Capital calculated as a weighted average of the cost of the group's debt capital and the cost of risk capital, defined on the basis of the Capital Asset Pricing Model (CAPM)

methodology, consistent with the specific risk of Saipem's business, measured by the beta of the Saipem share.

- > **Write-off** cancellation or reduction of the value of an asset.

Operational terms

- > **Buckle detection** system that utilises electromagnetic waves during pipelaying to signal collapse of or deformations to pipeline laid.
- > **Bundles** bundles of cables.
- > **Carbon Capture and Storage** technology which enables the carbon present in gaseous effluents from hydrocarbon combustion and treatment plants to be captured and stored over long periods of time in underground geological formations, thus reducing or eliminating carbon dioxide emissions into the atmosphere.
- > **Central Processing Facility** production unit performing the first transformation of crude oil or natural gas.
- > **Cold stacked** idle plant with a significant reduction in personnel and reduced maintenance.
- > **Commissioning** series of processes and procedures undertaken in order to start operations of a gas pipeline, associated plants and equipment.
- > **Concrete coating** reinforced concrete coating for subsea pipelines in order to ballast and protect them from damage and corrosion.
- > **Conventional waters** water depths of up to 500 metres.
- > **Cracking** chemical-physical process, typically employed in dedicated refinery plants, whose objective is to break down the heavy hydrocarbon molecules obtained from primary distillation into lighter fractions.
- > **Debottlenecking** removal of obstacles (in rigs/fields) which leads to higher production.
- > **Deck** area of a vessel or platform where process plants, equipment, accommodation modules and drilling units are located.
- > **Decommissioning** process undertaken in order to end operations of a gas pipeline, associated plant and equipment. It is performed at the end of the useful life of the plant or vessel following an incident, for technical or financial reasons, for safety or environmental reasons.
- > **Deep waters** water depths of over 500 metres.
- > **Downstream** all operations that follow exploration and production operations in the oil sector.
- > **Drillship** vessel capable of self-propulsion, designed to carry out drilling operations in deep waters.
- > **Dry-tree** wellhead located above the water on a floating production platform.
- > **Dynamically Positioned Heavy Lifting Vessel** vessel equipped with a heavy-lift crane, capable of

- holding a precise position through the use of thrusters, thereby counteracting the force of the wind, sea, currents, 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.
 - > **Field Engineer** on-site engineer.
 - > **Flare** tall metal structure used to burn off gas produced by oil/gas separation in oil fields when it is not possible to utilise it on site or ship it elsewhere.
 - > **FLNG** Floating Liquefied Natural Gas unit used for the treatment, liquefaction and storage of gas which is subsequently transferred onto vessels for transportation to end-use markets.
 - > **Floatover** type of module installation on offshore platforms that does not require lifting operations. A specialised vessel transporting the module uses a ballast system to position itself directly above the location where the module is to be installed. Once the module is in contact with the supports, the vessel disconnects and the module is subsequently secured to the support structure.
 - > **Flowline** pipeline used to connect individual wells to a manifold or to gathering and processing facilities.
 - > **FPSO vessel** Floating Production, Storage and Offloading system comprising a large tanker equipped with a high-capacity production facility. This system, moored at the bow to maintain a geo-stationary position, is effectively a temporarily fixed platform that uses risers to connect the subsea wellheads to the on-board processing, storage and offloading systems.
 - > **FPU** Floating Production Unit.
 - > **FSHR** (Free Standing Hybrid Risers) system consisting of a vertical steel pipe ("riser"), which is kept under tension by a floating module position near the water whose buoyancy ensures stability. A flexible pipe (jumper) connects the upper part of the riser to the Floating Production Unit (FPU), while the riser is anchored to the sea bottom by means of an anchoring system. A rigid pipe (riser base jumper) connects the lower part of the FSHR to the Pipe Line End Terminations (PLETs).
 - > **FSRU** (Floating Storage Regasification Unit) a floating terminal in which liquefied natural gas is stored and then regasified before being transported by pipeline.
 - > **Gas export line** pipeline for carrying gas from the subsea reservoirs to the mainland.
 - > **Grass Root Refinery** a refinery that is built from scratch with a planned capacity.
 - > **Hydrocracker** installation in which large hydrocarbon molecules are broken down into smaller ones.
 - > **Hydrotesting** operation involving high pressure (higher than operational pressure) water being pumped into a pipeline to ensure that it is devoid of defects.
 - > **Hydrotreating** refining process aimed at improving the characteristics of oil fractions.
 - > **Ice Class** classification that indicates the additional level of upgrading and other criteria that make a ship sea worthy to sail in sea ice.
 - > **International Oil Companies** privately-owned, typically publicly traded, oil companies engaged in various fields of the upstream and/or downstream oil industry.
 - > **Jacket** platform underside structure fixed to the seabed using piles.
 - > **Jack-up** mobile self-lifting unit comprising a hull and retractable legs used for offshore drilling operations.
 - > **J-laying** method of pipelaying that utilises an almost vertical launch ramp, making the pipe configuration resemble the letter "J". This type of pipelaying is suitable for deep waters.
 - > **Lay-up** idle vessel with suspension of the period of validity of the class certificate.
 - > **Leased FPSO** FPSO (Floating Production, Storage and Offloading) vessel for which a lease contract is in place between a client/lessee (Oil Company) and a contractor/lessor, whereby the lessee (client/Oil Company) makes lease payments to the lessor for use of the vessel for a specific period of time. At the end of the lease term, the lessee has the option to purchase the FPSO.
 - > **LNG** (Liquefied Natural Gas) obtained by cooling natural gas to minus 160 °C. At normal pressure, gas is liquefied to facilitate its transportation from the place of extraction to that of processing and/or

utilisation. A tonne of LNG is equivalent to 1,500 cubic metres of gas.

- **Local Content** policy whereby a group develops local capabilities, transfers its technical and managerial know-how and enhances the local labour market and businesses through its own business activities.
- **LPG** (Liquefied Petroleum Gas) produced in refineries through the fractionation of crude oil and subsequent processes, liquid petroleum gas exists in a gaseous state at ambient temperatures and atmospheric pressure, but changes to a liquid state under moderate pressure at ambient temperatures, thus enabling large quantities to be stored in easy-to-handle metal pressure vessels.
- **LTI** (Lost Time Injury) any work-related injury that renders the injured person temporarily unable to perform any regular job or restricted work on any day/shift after the day or shift on which the injury occurred.
- **Marginal fields** oil fields with scarce exploitable resources or at a stage of declining production for which extended use is attempted through low risk, cost effective technologies are used.
- **Midstream** sector comprising all those activities relating to the construction and management of the oil transport infrastructure.
- **Moon pool** opening in the hull of a drillship to allow for the passage of equipment.
- **Mooring buoy** offshore mooring system.
- **Multipipe subsea** subsea gas/liquid gravity separation system using a series of small diameter vertical separators operating in parallel (for deep water application).
- **National Oil Companies** State-owned/controlled companies engaged in oil exploration, production, transportation and conversion.
- **NDT** (Non Destructive Testing) a series of inspections and tests used to detect structural defects conducted using methods that do not alter the material under inspection.
- **NDT Phased Array** non-destructive testing method that employs ultrasound to detect structural or welding defects.
- **Offshore/Onshore** the term offshore indicates a portion of open sea and, by extension, the activities carried out in this area, while onshore refers to land operations.
- **Oil Services Industry** industrial sector that provides services and/or products to the National or International Oil Companies engaged in oil exploration, production, transportation and conversion.
- **Open Book Estimate** (OBE) type of contract where the lump-sum fee for the project (usually for turnkey or EPC projects) is agreed on with the client, with complete transparency, after the contract has been signed and during an advanced stage of the base engineering, on the basis of an overall project cost estimate.
- **P&ID** (Piping and Instrumentation Diagram) diagram showing all plant equipment, piping and instrumentation with associated shut-down and safety valves.
- **Pig** piece of equipment used to clean, descale and survey a pipeline internally.
- **Piggy back pipeline** small-diameter pipeline, fixed to a larger pipeline, used to transport a product other than that of the main line.
- **Pile** long and heavy steel pylon driven into the seabed. A system of piles is used as the foundation for anchoring a fixed platform or other offshore structures.
- **Pipe-in-pipe** subsea pipeline system comprising 2 coaxial pipes, used to transport hot fluids (Oil & Gas). The internal pipe has the function of transporting the fluid. The space between the two pipes is insulated to reduce heat exchange with the external environment. The external pipe provides mechanical protection from the pressure of the water.
- **Pipe-in-pipe forged end** forged end of a coaxial double pipe.
- **Pipelayer** vessel used for subsea pipe laying.
- **Pipeline** pipes and auxiliary equipment used principally for transporting crude oil, oil products and natural gas to the point of delivery.
- **Pre Assembled Rack (PAR)** pipeline support beams.
- **Pre-commissioning** phase comprising pipeline clean-out and drying.
- **Pre-drilling template** support structure for a drilling platform.
- **Pre-Salt layer** geological formation present on the continental shelves offshore Brazil and Africa.
- **Pre-Travel Counselling** health and medical advice designed to take into account the health of the individual worker and ensure that he/she is furnished with adequate information on the specific risks present in his/her country of destination and the preventive measures that should be adopted.
- **PTS** (Pipe Tracking System) an electronic system used to ensure the full traceability of the components of subsea pipes installed on a project.
- **Pulling** minor operations on oil wells due to maintenance or marginal replacements.
- **QHSE** Quality, Health, Safety, Environment.
- **Rig** drilling installation comprising the derrick, the drill deck (which supports the derrick), and ancillary installations that enable the descent, ascent and rotation of the drill unit, as well as mud extraction.
- **Riser** manifold connecting the subsea wellhead to the surface.
- **ROV** (Remotely Operated Vehicle) unmanned vehicle, piloted and powered via umbilical, used for subsea surveys and operations.
- **Shale gas** unconventional gas extracted from shale deposits.
- **Shale oil** non conventional oil obtained from bituminous shale.
- **Shallow water** see Conventional waters.
- **Sick Building Syndrome** a combination of ailments associated with a person's place of work. The exact causes of the syndrome are not known but the presence of volatile organic compounds, formaldehyde, moulds and dust mites may be contributing factors.
- **S-laying** method of pipelaying that utilises the elastic properties of steel, making the pipe configuration resemble the letter "S", with one end on the seabed and the other under tension on-board the ship. This configuration is suited to medium to shallow-water pipelaying.

- > **Slug catcher** equipment for the purification of gas.
- > **Smart stacking** period of idleness that allows for optimising costs and the application of a rig preservation plan.
- > **Sour water** water containing dissolved pollutants.
- > **Spar** floating production system, anchored to the seabed by means of a semi-rigid mooring system, comprising a vertical cylindrical hull supporting the platform structure.
- > **Spare capacity** relationship between crude oil production and production capacity, i.e. quantity of oil which is not currently needed to meet demand.
- > **Spool** connection between a subsea pipeline and the platform riser, or between the terminations of 2 pipelines.
- > **Spoolsep** unit used to separate water from oil as part of the crude oil treatment process.
- > **Stripping** process through which volatile compounds are removed from the liquid solution or the solid mass in which they have been diluted.
- > **Subsea processing** operations performed in offshore oil and/or natural gas field developments, especially relating to the equipment and technology employed for the extraction, treatment and transportation of oil or gas below sea level.
- > **Subsea tiebacks** lines connecting new oil fields with existing fixed or floating facilities.
- > **Subsea treatment** a new process for the development of marginal fields. The system involves the injection and treatment of sea-water directly on the seabed.
- > **SURF** (Subsea, Umbilicals, Risers, Flowlines) facilities, pipelines and equipment connecting the well or subsea system to a floating unit.
- > **TAD** (Tender Assisted Drilling unit) an offshore platform complete with drilling tower, connected to a drilling support tender vessel housing all necessary ancillary infrastructures.
- > **Tandem Offloading** method used for the transfer of liquids (oil or LNG) between two offshore units in a line via aerial, floating or subsea lines (unlike side-by-side offloading, where the two units are positioned next to each other).
- > **Tar sands** mixture of clay, sand, mud, water and bitumen. The tar is made up primarily of high molecular weight hydrocarbons and can be transformed into various petroleum products.
- > **Template** rigid and modular subsea structure where the oilfield well-heads are located.
- > **Tendons** pulling cables used on tension leg platforms to ensure platform stability during operations.
- > **Termination for Convenience** the right to unilaterally terminate the contract at any time without giving a reason, upon payment of a contractually negotiated settlement in order to exercise said right (so called "termination fee").
- > **Tie-in** connection between a production line and a subsea wellhead or simply a connection between two pipeline sections.
- > **Tight oil** oil "trapped" in liquid form deep below the earth's surface in low permeability rock formations, which it is difficult to extract using conventional methods.
- > **TLP** (Tension Leg Platform) fixed-type floating platform held in position by a system of tendons and anchored to ballast caissons located on the seabed. These platforms are used in ultra-deep waters.
- > **Topside** portion of a platform above the jacket.
- > **Train** series of units that achieve a complex refining, petrochemical, liquefaction or natural gas regasification process. A plant can be made up of one or more trains of equal capacity operating in parallel.
- > **Trenching** burying of offshore or onshore pipelines.
- > **Trunkline** oil pipeline connecting large storage facilities to the production facilities, refineries and/or onshore terminals.
- > **Umbilical** flexible connecting sheath, containing flexible pipes and cables.
- > **Upstream** relating to exploration and production operations.
- > **Vacuum** second stage of oil distillation.
- > **Warm Stacking** idle plant, but one ready to resume operations in the event that a new contract is acquired. Personnel is at full strength and ordinary maintenance is normally carried out.
- > **Wellhead** fixed structure separating the well from the outside environment.
- > **WHB** (Wellhead Barge) vessel equipped for drilling, workover and production (partial or total) operations, connected to process and/or storage plants.
- > **Workover** major maintenance operation on a well or replacement of subsea equipment used to transport the oil to the surface.

Other terms

- > **ESMA** European Securities and Markets Authority.
- > **OECD** (Organisation for Economic Co-operation and Development) composed of thirty-five developed countries having in common a democratic system of government and a free market economy.
- > **OPEC** Organization of the Petroleum Exporting Countries.

CONSOLIDATED NON-FINANCIAL STATEMENT

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

The "Consolidated Non-Financial Statement" (hereinafter the NFS) is the report drafted by Saipem to meet the requirements laid down in Articles 3 and 4 of Italian Legislative Decree (D.Lgs.) No. 254/2016, the Italian transposition of European Directive 2014/95/EU. This document reports on the management of non-financial aspects, the Group's policies, its activities, the main results and impacts generated in the year in terms of indicators and trend analysis. The document also integrates Saipem's commitment to concretely implementing the relative European Commission guidelines, in order to provide stakeholders with increasingly useful, complete and transparent non-financial information to understand the business of the Company.

Methodology, principles and reporting criteria

This document constitutes the "Consolidated Non-Financial Statement" of the Saipem Group as of December 31, 2019 (hereafter Group, Saipem, Company).

The document has been prepared in accordance with the GRI Standards: Core option (see the "GRI Content Index" section). The Core option requires that 33 disclosures in the Organisational profile, Strategy, Ethics and integrity, Governance, Stakeholder engagement and Reporting practice areas are included and that all the requirements contained in the "Management Approach" GRI standard 103 and, for each material topic (or relevant) all reporting requirements for at least one disclosure foreseen by the relevant "topic-specific" standard are met.

In order to continue to improve transparency in relation to the Company performance and facilitate the comparability of the data and information provided to stakeholders, from this year we have also considered the indications provided by the Sustainability Accounting Standards Board (SASB) for the identification and publication of the information deemed most significant for creating long-term value for the sector. Considering the diversified operational activities of the Group, it was decided to refer to SASB standards in two different sectors: 1) Extractives & Minerals processing sector - Oil&Gas - Services; 2) Infrastructure sector - Engineering & Construction services.

As laid down in Article 5 of D.Lgs. No. 254/2016, the NFS is a separate report within the "Directors' Report", marked by a specific wording to ensure it is clearly identified. As such, it was approved by the Board of Directors of Saipem SpA on March 12, 2020. The NFS is drafted by the Corporate Sustainability function, in cooperation with all Corporate functions, divisions, companies, operational projects and sites of the Group in charge of the various topics discussed.

Specific procedures define the roles, responsibilities, activities, controls and information flows relating to the NFS reporting process.

The NFS refers to other sections of the "Directors' Report" and of the "Corporate Governance and Shareholding Structure Report" with regard to the content treated in detail therein and in turn it contains information that fulfils the obligations referred to in the first and second subparagraphs of Article 2428 of the Italian Civil Code, limited to the analysis of personnel and environment information.

In addition to the provisions outlined by legislation, the content of the document has been defined, as established by the provisions of the GRI Standards, taking into consideration the principles of materiality, stakeholder inclusiveness, sustainability context and completeness. The principles of balance, comparability, accuracy, timeliness, clarity and reliability have been followed to guarantee the quality of the information contained in the document. The section entitled "GRI Content Index" contains details of the performance indicators reported in accordance with the adopted guidelines.

The information given in the NFS refers to material topics identified and the relative indicators, which reflect the relevant economic, environmental and social impacts of the organisation or which could substantially influence the assessments and decisions of the Group's stakeholders. The materiality analysis, updated annually and with the direct involvement of the Company's stakeholder representatives, has led to the definition of the contents to be reported. In relation to the areas defined in Article 3 of D.Lgs. No. 254/2016, the use of water resources was not deemed significant, and is therefore not discussed as a material topic in the NFS. Notwithstanding, to guarantee the transparency, completeness and continuity of information, basic information on water uses is in any case given in this document. The key objectives and commitments, the description of the strategic approach to the key non-financial topics and the main risks generated and incurred in these fields, including the methods for managing them, are discussed in the relative sections of this document.

In order to provide more in-depth information on issues of greatest interest to corporate

stakeholders, with a more communicative language and mode, Saipem has been publishing the annual Sustainability Report since 2006. The document named "Making change possible - Sustainability Report 2019" and other topic-specific documents, to which you are invited to refer where necessary. In particular, for the second year running Saipem has renewed its commitment to disclosure according to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board in its document "Climate: from strategy to action", published in December 2019 and available on the company website. Moreover, since 2016 the Company has published an annual Modern Slavery Statement which describes the measures adopted to ensure, as required by the United Kingdom Modern Slavery Act 2015 - Section 54, that there are no forms of "modern slavery, penal labour or human trafficking" within the Company or in its supply chain. Voluntarily, the Statement considers the activities of the whole Saipem Group and not only the companies operating in the United Kingdom.

The performance indicators are gathered annually, and the report refers to the three-year period 2017-2019, unless otherwise specified. The information and quantitative data collection process has been organised in such a way as to guarantee comparability over the data and analysis of the trends over a three-year period, in order to enable correct interpretation of the information and a full overview for all the stakeholders interested in the evolution of Saipem's performance. Any changes in the collection methods from the previous year are suitably indicated in the document.

In 2019, Saipem implemented on a small sample of Group companies an Internal Control System focusing specifically on Non-Financial Information and based on the Framework of the Committee of Sponsoring Organization (CoSO). The aim of the Internal Control System is to further increase the reliability of non-financial reporting as a whole, and to introduce an additional internal auditing process by the functions.

Given the complexity of the Group's non-financial data structure, this Control System has required the creation of a specific team and the drafting of specific internal procedures ("Management System Guideline for Internal Control System over Non-Financial Information"). Two monitoring sessions are envisaged: Line Monitoring, carried out by internal functions on the data for which the function is responsible, and Independent Monitoring, carried out by the Internal Audit function on other Company functions.

Saipem has defined a series of security measures in addition to those in place for the security of the data and information managed by the Company for the purposes, albeit non-exclusive, of this document. These also apply to the reporting systems used so that all technological applications and infrastructures are fully integrated in the security systems to protect them against cyber attacks. These measures, under current or future implementation, specifically concern applications for supply and employee health management.

The NFS is subject to a limited assurance engagement by an independent auditor, which in a specific and separate report expresses its conclusion on the information provided pursuant to Article 3(10) of D.Lgs. No. 254/2016. The audit is carried out according to the procedures indicated in the section "Independent auditors' report" of this document.

Reporting boundary

The NFS contains the information and performance indicators for Saipem SpA and the fully consolidated subsidiaries in the "Annual Report", as prescribed by Italian D.Lgs. No. 254/2016. Any changes in the reporting boundary from the previous year are described in the "Principles of consolidation" section of the "Annual Report".

In some contexts there are deviations from the consolidation scope defined above, in any case guaranteeing the criterion of significant impact. As regards the safety data, it is underlined that, from 2018, these are accounted for separately for Saipem and its subcontractors. On the other hand, environmental indicators also include the data for subcontractors operating on Saipem and partner sites in activities where Saipem is responsible for HSE management. Furthermore, the significance limits for the inclusion of operating sites in the scope (No. of people on site or, in the case of offices not belonging to Saipem, the type of lease contract) are also defined for these indicators.

Starting from the 2019 reporting year, the Company has reviewed the reporting methods of the environmental performance data of four FPSO: Cidade de Vitoria (operating in Brazilian waters), Gimboa, Kaombo Sul and Kaombo Norte (operating in Angolan waters). The two Kaombo floaters were built by Saipem, but are currently owned by customers. Therefore, Saipem no longer reports any environmental data for these vessels. Although Cidade de Vitoria and Gimboa are owned and operated by Saipem, they operate for the production purposes of the customers who rent the floaters and the relevant plants and contractually

impose their specifications. Since the vessels have modules for housing and related services for about 100 people, only the data on water consumption and discharges, waste produced and spills relating to the aforementioned modules are reported in environmental performance, when Saipem has effective management capacity and when the data is considered significant. A review of the environmental performance data deemed significant and therefore maintained in the Group reporting boundaries was therefore carried out for both FPSOs. Please note, finally, that companies that do not have significant business activities are excluded from relations with local stakeholders.

To ensure the understanding of the Company's activities, progress, results and the impact it has produced, as laid down in D.Lgs. No. 254/2016, i.e. to provide the information necessary to ensure the understanding of the activities of the whole Saipem Group, its progress, results and the impact it has produced, and also to guarantee the comparability of its performance in relation to the information published in other corporate documents, in addition to the complete boundary (referred to as the

"consolidated boundary" in this document), the indicators are also given with a broader reporting boundary, including subsidiaries that are not fully consolidated and those in joint operation, joint control or affiliated companies in which Saipem has control over the operations. These indicators are marked by the wording "Group Total".

For some material topics, the impact of Saipem's activities is manifested beyond the boundary of the organisation. As foreseen by the principle of information completeness defined by GRI Standard 101: Foundation, *the organisation is bound to report the boundary for each material topic not only concerning the impacts caused directly by its own activities but also the impacts it contributes to and which are linked through business relations to its own activities, products and services.* For this purpose and concerning the most significant issues, Saipem reports some significant indicators and information also referred to activities it does not directly manage. The following table identifies the external boundaries by category of concerned stakeholder, also indicating any limitations that impact each material topic.

Material topics	External boundary	Limitations
Wellbeing, health and safety	Vendors and subcontractors, some local communities	Partial, for vendors
Ethics and compliance	Business partners, vendors and subcontractors	-
Human Rights	-	-
Innovation and digitalisation	-	-
Talent and development	Subcontractors (HSE training)	-
Spill prevention and response	Vendors and subcontractors	Vendors
Responsible supply chain	Vendors and subcontractors	Partial, for vendors
Energy efficiency	Vendors and subcontractors	Vendors
Climate change and air quality	Vendors and subcontractors	Vendors
Transparency	-	-
Long-term value creation	Vendors and subcontractors	The models for calculating the value generated were applied to some operating situations

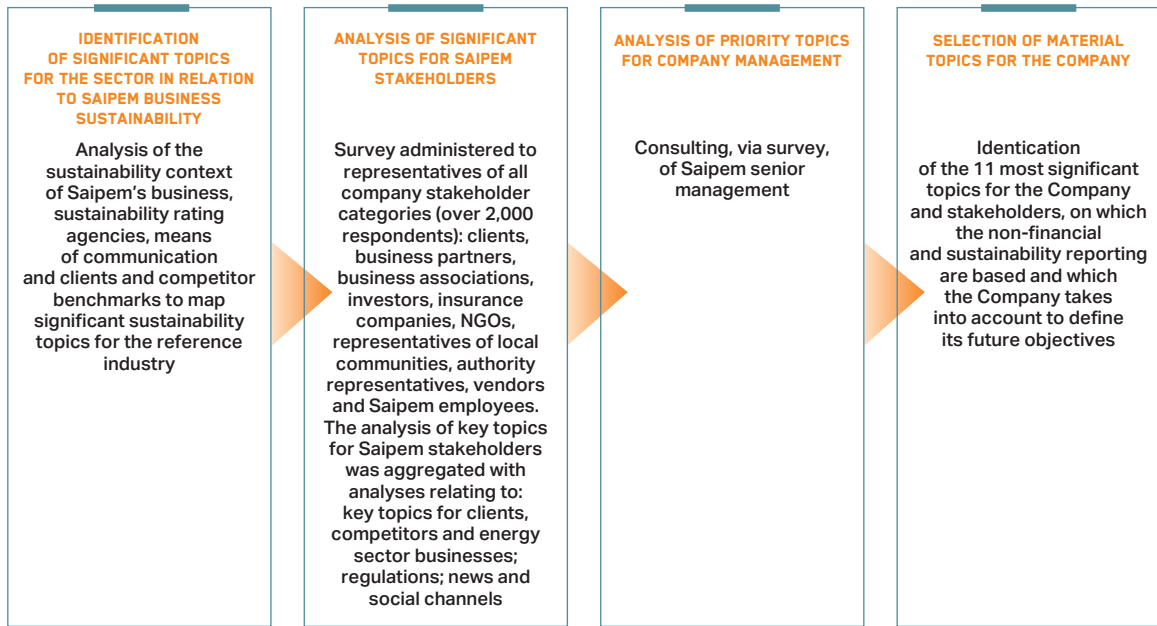
Materiality analysis and content definition

The NFS reports on the areas laid down in D.Lgs. No. 254/2016 deemed to be significant and material according to a process that considers the specific activities of Saipem and the interests of all categories of Company stakeholders, as described below.

As established by the provisions of the GRI Standards and in accordance with Saipem procedures, the Company implements a materiality

analysis process every year. This is aimed at identifying and prioritising the sustainability aspects of its business that could substantially influence the assessments and decisions of its stakeholders and are considered most significant for the Company itself. The analysis is carried out with the involvement of representatives from all main stakeholder categories (including employees) and corporate management.

Following is a representation of the process in its subsequent work phases.



The respondents (external stakeholders, Saipem employees and senior management) identified the most important topics, assessing them in accordance with the responsibility principle (topics that the respondent considers must be managed by Saipem as the company in charge) and the value (economic, social, cultural, reputational, environmental, etc.) created for Saipem itself, in favour of its stakeholders, and for civil society in the broadest sense.

The end results of the materiality analysis were validated by the Sustainability Committee, chaired by the CEO and consisting of the Company's top management, and agreed with the Sustainability, Scenarios and Governance Committee and the Board of Directors.

The topics that emerged from the materiality analysis became the basis for the definition of the Saipem Sustainability Plan, across-the-board for all business lines, that is later taken into consideration








for the definition of the four-year action plan and managerial objectives.

To facilitate the reading of the NFS, the icons given in the following table "Legislative Decree No. 254/Material Topics/NFS Content Correspondence" on page 76 help to visually identify the macro-areas of the related material topics presented in our materiality matrix.

For a description of the risks identified by the Company in relation to the five areas for discussion laid down in D.Lgs. No. 254/2016 and the topics identified as material for the Company, in addition to what explained in the specific sections of the NFS, reference is also made to the "Risk management" section of the "Directors' Report" for a more complete description integrated into Saipem's overall Enterprise Risk Management system.

	Related to strategic positioning	Related to technological development	Related to human resources	Related to the supply chain	Related to business integrity processes	Related to health, safety and the environment	Related to political, social and economic instability
MATERIAL TOPICS/RISKS DESCRIBED IN THE DIRECTORS' REPORT - "RISK MANAGEMENT"							
Climate change and air quality		■				■	■
Energy efficiency		■					
Wellbeing, health and safety						■	■
Spill prevention and response						■	
Innovation and digitalisation	■	■	■			■	
Ethics and compliance					■		
Human Rights			■				■
Responsible supply chain				■			
Talent and development			■	■			■
Transparency					■		
Long-term value creation	■						■

LEGISLATIVE DECREE NO. 254/MATERIAL TOPICS/NFS CONTENT CORRESPONDENCE

Areas laid down in D.Lgs. No. 254/2016	Material topics Saipem	GRI Standards	Icon	Sections of the Saipem 2019 NFS	Discussion in other documents
Company management and organisation model Article 3.1, subsection a		GRI 102: General Disclosures 2016 GRI 201: Economic Performance 2016 GRI 204: Procurement Practices 2016		Company management and organisation model.	"Human resources" and "Governance" chapters of the Directors' Report. Corporate Governance and Shareholding Structure Report 2019.
Policies Article 3.1, subsection b				In the specific "Management policies and system" sections of each issue discussed.	Corporate policies are available in the Documentation section on the website www.saipem.com .
Environmental topics: - environmental impacts Article 3.2, subsection c - energy and emissions Article 3.2, subsection a Article 3.2, subsection b - water resources Article 3.2, subsection a	Energy efficiency. Climate change and air quality. Spill prevention and response.	GRI 201: Economic Performance 2016 GRI 302: Energy 2016 GRI 305: Emissions 2016 GRI 306: Effluents and Waste 2016		Energy efficiency and GHG emissions. Spill prevention and response. Innovation and research into climate change; innovation in people management.	"Innovating for the new energy scenario", "Enabling carbon footprint reductions" and "Keeping people and operations safe and sound" chapters of the Making change possible - Sustainability Report 2019.
Human resources management Article 3.2, subsection d Impacts on health and safety Article 3.2, subsection c	Wellbeing, health and safety. Talent and development. Transparency.	GRI 401: Employment 2016 GRI 403: Occupational Health and Safety 2018 GRI 404: Training and Education 2016 GRI 405: Diversity and equal opportunity 2016 GRI 412: Human Rights Assessment 2016		Safety. Health. Skill and knowledge development.	"Innovating for the new energy scenario", "Enabling carbon footprint reductions", "Keeping people and operations safe and sound" and "Generating shared value" chapters of the Making change possible - Sustainability Report 2019.
Social aspects Article 3.2, subsection d	Responsible supply chain. Long-term value creation. Transparency.	GRI 202: Market presence 2016 GRI 308: Vendor Environmental Assessment 2016 GRI 414: Vendor Social Assessment 2016		Creation of sustainable value over time. Ethical supply chain management. Security practices.	"Generating shared value" chapter of the Making change possible - Sustainability Report 2019.
Respect for human rights Article 3.2, subsection e	Human Rights.	GRI 406 Non-discrimination 2016 GRI 407: Freedom of Association and Collective Bargaining 2016 GRI 408: Child Labour 2016 GRI 409: Forced or Compulsory Labour 2016 GRI 410: Security Practices 2016		Saipem people and all subsections. Respect for human rights.	"Generating shared value" chapter of the Making change possible - Sustainability Report 2019.
Fighting corruption Article 3.2, subsection f	Ethics and compliance. Transparency.	GRI 205: Anti-corruption 2016 GRI 415: Public policy 2016		Fighting corruption.	



OUR BUSINESS

Company profile and key operations

The Saipem Group is a provider of global solutions for the energy and infrastructure sectors, operating in over 70 countries, with 9 fabrication yards, a sea fleet of 44 vessels and an onshore drilling fleet of 85 units, of which 82 owned and 3 owned by third parties but operated by Saipem. The Company operates in Europe, the Americas, the CIS, Africa, Middle East, Far East and Oceania. The Company has specialist skills in the management of complex projects, from design to decommissioning, in extreme environments, remote areas and deep waters.

The market conditions in which the Company operates are described in the “Market conditions” section of this Annual Report.

To foster energy transition, responding to and anticipating current and future market needs, the Company has made innovation and digitalisation key elements of its strategy. A commitment affecting both the conventional business linked to fossil fuel sources and to the development of new technologies for the emerging renewable energy markets.

The Saipem business model enhances the synergies between the different business areas and the external context in which the Company operates, aiming to constantly identify new solutions to increase operational efficiency, reduce the environmental impacts of operations and products supplied to clients, and to improve the safety of employees and vendors.

GRI 102-2, 102-4,
102-6, 102-7
SASB
IF0301-A/B/C
SASB
EM-SV-000.
A/B/C/D

Activity metric	Unit of measurement	2019
Drilling rigs ^(a)	(number)	86
Offshore drilling rigs ^(b)	(number)	15
Drilled wells onshore	(number)	217
Drilled metres onshore	(metres)	673,417
Drilled wells offshore	(number)	101
Drilled metres offshore	(metres)	133,635
Total backlog ^(c)	(€)	21,153

(a) Of which, 82 owned, 1 under construction, 3 owned by third parties.

(b) Of which 3 in long term rental.

(c) €24,778 including companies not fully consolidated.

Development of the market scenario and strategy

The current outlook is shaped by a complex confluence of ongoing realignments, long-term trends and new shocks. The spread of the Coronavirus pandemic has created an upheaval in the world economy, the impacts of which cannot be quantified exactly.

The ability to reabsorb the collapse in overall demand will depend on various factors (duration and extent of contagion, extent of support measures for the economy) that will be measured during 2020.

The longer-term perspective depicts an evolving world, characterised by an economy which increasingly reduces its dependence on energy consumption.

There has been a great impact as a result of climate-related policies and the availability of green technologies as a viable alternative to fossil fuels, in particular coal, for clean power generation.

In addition to this, the current trend of tertiarisation within the industry, as well as digitalisation improvements, are expected to boost energy efficiency and productivity.

This positive trend will be further enhanced by

environmental sustainability efforts pursued by many energy companies and the emergence of low-carbon products and services, such as offshore wind parks, that could also represent a diversification solution in the Oil&Gas industry.

This commitment to the diversification of energy sources is increasingly encouraging investments in renewable energy also on a large scale and in all areas of the planet. According to a survey of several public and non-public long-term scenarios, the share of renewable sources (in particular wind and solar) in the global energy mix will move from a 2% range in 2018 to the 6%-18% range in 2040, depending on the pace of the transition.

Saipem has made significant changes to its organisational structure setting up five independent divisions and doubling its efforts in the sustainability of its portfolio, dramatically increasing in non-oil sectors, such as gas and LNG, and focusing on clean technologies, digitalisation and decarbonisation. The new organisation has been the starting point for delivering a diversified strategy among Saipem’s different divisions. Beyond the traditional markets

(conventional developments and subsea), the Offshore E&C Division is becoming one of the contractors of choice today in Offshore Wind farm developments. This materialised diversification leverages on the execution capabilities and the opportunity to deploy the traditional offshore construction fleet in this new market. In the Onshore E&C business, gas and renewables will be the main drivers for advancing the decarbonisation of the current portfolio, together with an increased operational efficiency that can direct the division towards the goal of eliminating overall carbon emissions along the EPC value chain. Greater attention is paid to the technological portfolio with regard to emerging green technologies, such as hydrogen, bio-tech, hybrid solutions and CCUS (Carbon Capture, Utilisation, and Storage). The development of these innovations is also aimed at supporting Saipem's traditional Oil&Gas

customers in the energy transition, providing solutions oriented at reducing not only carbon emissions, but also at improving the management of waste, of water consumption, of pollutants and of the overall environmental footprint. The role of innovation remains crucial and will be supported also by the XSIGT Division that has the capabilities to delve into several cross-segment solutions, both in the Oil&Gas and renewable fields, encompassing plastics conversions, bio-refineries, integrated renewable solutions, hydrogen and decarbonisation. The focus of both the drilling divisions will be kept on the continuous improvement of operational efficiency, also through the digitalisation of their asset helping to bring a positive impact on performances, and the diversification and expansion of their own fleet, clients and geographies, as a result of an increasingly balanced global and sustainable portfolio.

Company management and organisation model



In recent years the Saipem Group has continued to adapt its corporate structure to market developments, to promptly respond to new challenges and create value for its stakeholders. In this light, since 2017 Saipem has adopted a division-based organisational network structure, seeking maximum operational flexibility, continuous improvement of performance, optimal resource management and process/product innovation, in accordance with the principles of compliance and governance. The current organisational structure of Saipem has:

- > an operational Corporate structure with group-level leadership and control that is responsible for managing issues relating to critical or relevant aspects of corporate governance;
- > 5 divisions – Onshore E&C, Offshore E&C, Onshore Drilling, Offshore Drilling, XSIGT – each with full responsibility over global business results and with all the decision-making, management and operational powers that are necessary to the pursuit of the targets set;
- > a network of operating companies and branches located in the different countries in which Saipem operates, reporting directly to the five divisions and ensuring the development of commercial and operational activities in the relevant national and international markets.

In 2019, the following main organisational initiatives and interventions were performed:

- > redefinition of the organisational structure of the Chief Financial Officer function, aiming for greater consistency with Saipem's division-based organisation and proximity to its business needs, strengthening and simplifying the synergies and interfaces between division structures and the competences of the CFO area;
- > definition and implementation of a Cyber Security

organisational model throughout Saipem, aiming to guarantee a more effective control of IT security and information integrity aspects;

- > development of actions leading to the full implementation of the corporate model, aiming to raise awareness and commitment at all levels of the company structure concerning:
 - the role of guidance, coordination and control exercised by the Corporate structure and the Saipem divisions;
 - critical and/or sensitive work processes for good corporate governance (Keep on Changing programme);
- > review of the Quality organisational and certification structure, assigning autonomy and responsibility to the divisions for the development and management of the Quality Management System, consistently with the Company's division-based organisation;
- > in the Onshore Engineering & Construction Division, a new operational model was defined, based on: (i) geographical areas with full responsibility for the acquisition volumes and profitability of operational projects; (ii) hubs for the development and specialisation of specific skills and resources; (iii) central coordination and control structures ensuring an overall vision and an organic, functional development;
- > in the Offshore Engineering & Construction Division, the "Continuous Improvement" programme began, aiming to identify improvement opportunities, reduce organisational complexity and optimise processes;
- > in the Onshore Drilling, Offshore Drilling and XSIGT divisions, organisational interventions were developed to focus the commercial and business development actions better and improve the effectiveness of control over business interests in the different countries.

Supply chain management

GRI 102-9
GRI 204-1

In executing its operational projects, and in the normal course of its activities, the Saipem Group relies on numerous vendors of works, goods and services. Saipem is committed to maintaining and improving relations with the companies that work with and for Saipem to make them lasting, mutually profitable and reliable for both parties.

The Saipem supply chain has almost 24,000 tier 1 vendors, distributed in all the geographical areas in which the Company operates, with a prevalence (29%) of vendors from the European area.

The product categories of works, goods and services required to perform Saipem's activities, classified to define uniform vendor-product combinations, total around 2,200, of which more than 1,000 are classified as strategic categories, i.e. deemed essential for the development of the Company's core business. In 2019, the most represented in terms of purchased amounts, relate to steel components (pipes, mesh, bars), equipment and vessels (centrifugal compressors, ship hire), civil works and site services, fuel, services provided by maritime agencies, personnel services, travel. The complexity and heterogeneity of the Company's supply chain lead to the need for a system guaranteeing an alignment between the Saipem standards and those adopted by its vendors, to prevent and mitigate risks and ensure an appropriate supply chain that can cope with the needs of current operational projects and potential acquisitions and developments in market conditions.

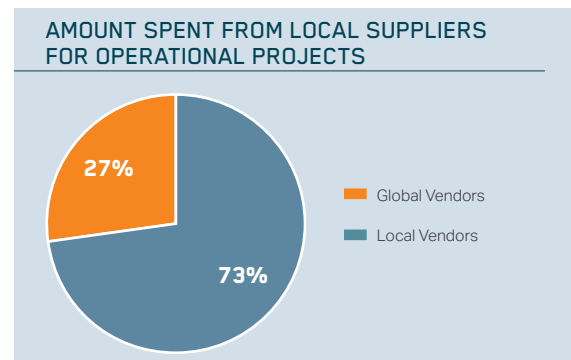
Saipem requires that its vendors apply the highest standards in relation to health and safety, combating bribery and corruption, respect for human rights and environmental protection. More details on the management of the supply chain in terms of the sustainability of their operations, with particular attention to the respect for human rights and HSE issues, are available in the "A sustainable supply chain" section of this document.

According to the principle of open competition, Saipem guarantees equal commercial opportunities for all companies which may potentially provide works, goods and services for its business, selecting its vendors and subcontractors from all over the world. Vendors are assessed in terms of technical and financial reliability and organisational capacity, including conformity with the principles expressed in the Saipem Sustainability Policy and Code of Ethics, as well as the requirements laid down in the specific HSE policies and standards.

The requirements are checked during the vendor qualification phase using a questionnaire, and also through more specific assessments and visits to production sites in the case of critical supplies. Additional checks on technical aspects and the vendor's ethical integrity are also carried out prior to the signature of actual purchase contracts.

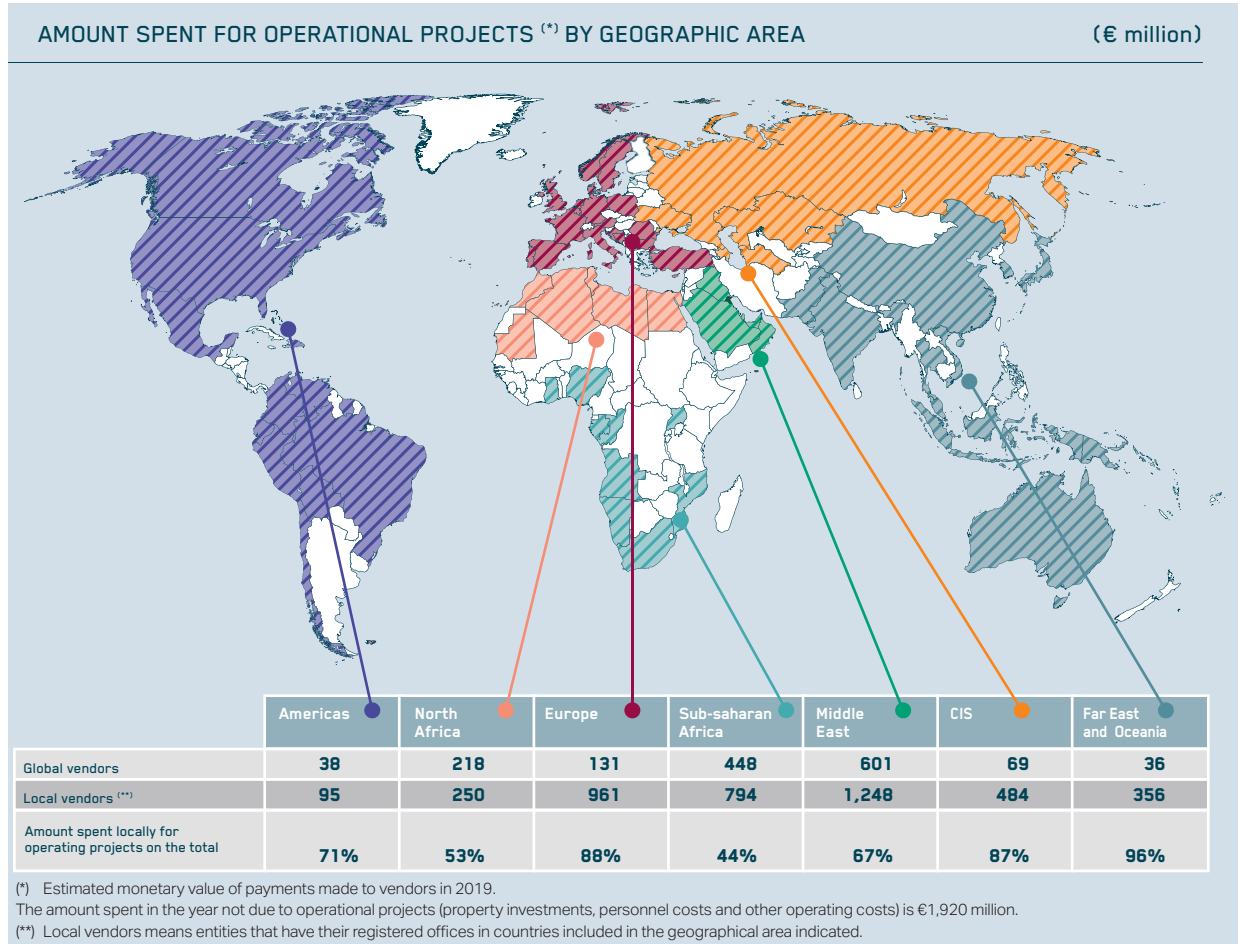
The monitoring and control of vendor performances are fundamental phases of the relational process with vendors, as these offer a reduction in the risks associated with the supply and provide inputs to the vendor aiming to improve their own processes and performance.

The procurement process, aiming to satisfy the needs expressed by the Company's different units, aims to maximise the overall value for Saipem, guaranteeing the availability and quality of the vendors, the correct management of contracts, logistic flows and post-order activities. The process is divided into five sub-processes which include, in order: the definition of the market approach strategy to be applied to the various supplies and the definition of project and non-project procurement plans using efficient and effective purchasing solutions; contract/purchase order processing and issue activities, including relations with vendors, and finally Post-order activities and contract management. The supply chain flow described above is further divided into the sub-process relating to Vendor Management, which ensures the availability of a fleet of vendors that is quantitatively and qualitatively appropriate to the goods, works and services required to meet the Group's needs, according to the required economic, financial, ethical, professional, technical and HSE standards; finally, the sub-process relating to Reporting, control and management of documentation, which, through



the management of documentation, guarantees the traceability of all phases of the Supply Chain process, making available information, key

performance indicators and possible actions for improvement in relation to all supply chain activities.



GRI 201-1
GRI 201-4

How our business model creates value

Knowledge of the external context, and active listening to all interlocutors, helps to create long-term sustainable value, combining economic and social growth. Through the Company's activities, its relations with stakeholders in all territories, its collaborations and partnerships, Saipem's business model promotes

sustainable development, fully in line with the indications of the United Nations Global Compact, of which Saipem has been an active member since 2016, which underline the importance of the increasing integration of sustainability into strategic corporate choices.



GRI 201-1



Economic value generated and distributed

Saipem produces economic value through its activities and redistributes part of that value, contributing to the economic growth of the social and environmental context it operates in.

In 2019, Saipem generated economic value worth €9,099 million, with an increase of 7% compared to the previous year.

Approximately 95% of this value (€8,684 million) was distributed to the stakeholders in the form of payments and other forms of transfer with an increase of 7% compared to the previous year.

The main beneficiaries of this value were the supply

chain, to whom €6,240 million (72% of the overall value distributed, compared to 75% in 2018) and employees, to whom €1,670 million were distributed (€1,522 million in the previous year), equal to 19% of the total. A significant share of the value was also distributed to capital providers (€643 million, equal to 7% of the value distributed, compared to €268 million in 2018).

The share destined for the public administration – in the form of taxes and charges – was €130 million (1.5% of the distributed value).

Economic value generated and distributed

(€ million)	2018	2019
Economic value generated		
Core business revenue	8,526	9,099
Other revenue and income	12	19
Financial income	209	515
Financial instruments	(106)	(82)
Net reversals of impairment losses (impairment losses) on trade receivables and other assets	(57)	(62)
Other operating income (expense)	(1)	-
Gains (losses) on equity investments	(88)	(18)
(Gross) economic value generated	8,495	9,471
Depreciation, amortisation and impairment	(811)	(690)
Economic value generated (net of depreciation, amortisation and impairment losses)	7,684	8,781
Economic value distributed and retained		
Economic value distributed	8,094	8,683
of which Operating expenses (purchases, services and other costs)	6,109	6,239
of which Wages and employee benefits (personnel expenses)	1,522	1,670
of which to the Community (*)	1	1
of which Capital providers (interest on loans)	268	643
of which to the Public Administration (taxes)	194	130
Economic value retained in the Group	(410)	97

(*) This includes local communities in the countries of operation, for socio-economic development, environmental preservation, cultural, humanitarian, scientific and sporting projects.

GRI 102-43
GRI 102-44



Relations with stakeholders

The Company strives to continuously involve all bearers of legitimate interests in Saipem's activities as a fundamental aspect of its sustainable business. Pursuing a constant dialogue and sharing objectives with all stakeholders are the means through which it is possible for the Company to create shared value. The approach developed by Saipem over time aims to ensure open and transparent relations with all stakeholders, promoting positive and mutually advantageous interactions, both in relations with

global and local stakeholders in the territories in which Saipem operates. The principles and responsibilities at the basis of Saipem's stakeholder engagement process are defined in the "Stakeholder Engagement" Management System Guideline, a corporate governance tool applied to the entire Group, designed to uniquely define the Saipem Sustainability Model and the relations with the stakeholders in line with the cornerstones of the Group's Sustainability Policy. The main expectations emerging from the annual



APPROACH ADOPTED FOR STAKEHOLDER ENGAGEMENT






 Financial stakeholders	 Clients	 Employees	 Local authorities and governments
<p>Continuous dialogue with the financial community (i.e. roadshows).</p> <p>Ensure full transparency and equal access to the disclosure of confidential information.</p> <p>Periodic disclosure of information through press releases and presentations, as well as periodic meetings with institutional investors and financial analysts.</p> <p>Individual shareholders may directly interface with the Company Secretary function.</p> <ul style="list-style-type: none"> > Organisation of 14 road show days and participation in 4 international investor conferences. > Active participation in the Italian Sustainability Day 2019 organised by Borsa Italiana with some one-to-one meetings with investors. > 1 reverse road show day at the Saipem headquarters. > Meeting with over 300 people, including portfolio managers and buy-side analysts. > Engagement activities with 19 financial stakeholders on ESG topics. > Over 900 people took part in four conference calls and webcasts on the quarterly financial results. > 25 financial stakeholders involved in the Saipem materiality analysis. <ul style="list-style-type: none"> > Engagement initiatives and dialogue on different business sustainability topics (e.g. Saipem Open Talks). 	<p>Constant reporting and meetings on operating projects.</p> <p>Meetings organised with clients or potential clients also include Sustainability aspects.</p> <p>Proactive engagement in HSE initiatives, such as environmental awareness campaigns or LiHS (Leadership in Health and Safety) programmes.</p> <ul style="list-style-type: none"> > Involvement of clients through a customer satisfaction monitoring system (48 clients involved through customer satisfaction questionnaires). > Clients involved in the presentation of the Saipem tool for measuring locally generated value. > Clients involved in events on HSE topics through the LiHS campaigns (e.g. Safe Driving Campaign). > 16 clients involved in the Saipem materiality analysis. <ul style="list-style-type: none"> > Engagement initiatives and dialogue on different business sustainability topics (e.g. Saipem Open Talks). 	<p>Committed to recruiting and retaining talented personnel and promoting their development, motivation and skills.</p> <p>Guarantee of a safe, healthy working environment and a stable relationship with trade unions to ensure an open dialogue based on cooperation.</p> <ul style="list-style-type: none"> > Employee engagement initiatives, including the 13 Deep In Saipem workshops, aiming to improve knowledge of operational projects, disseminate the use of best practices and a culture of innovation. > Training and talent retention initiatives, including Reverse Mentoring (contamination of digital, technical and managerial skills and behaviour among junior and senior resources). > Employees involved in HSE events (e.g. LiHS campaign). > Over 1,800 employees and senior managers involved in the Saipem materiality analysis. 	<p>Customised engagement with governments and local authorities.</p> <p>Institutional and official relations with authorities, as well as cooperation with public bodies to launch initiatives in favour of local development initiatives.</p> <ul style="list-style-type: none"> > Institutional relations and pro-active cooperation to jointly implement local development programmes. > Cooperation with local ministries of health, hospitals or medical centres to raise awareness on health issues (e.g. Angola, Congo). <ul style="list-style-type: none"> > 3 representatives of local authorities involved in the Saipem materiality analysis. > No direct or indirect contributions were made by Saipem in 2019 in whatever form to parties, movements, committees, political organisations and unions, to their representatives and/or candidates, unless required by local law.

stakeholder engagement process result in the material topics. Among these, the priorities are: wellbeing, health and safety; ethics and compliance; human rights; innovation and digitalisation; talent and development; spill prevention and response; responsible supply chain; energy efficiency; climate change and air quality; transparency; long-term value creation.

In order to meet the stakeholders' expectations on these issues in terms of transparency and the definition of concrete commitments, Saipem provides detailed reporting in this statement and the

"Making change possible - Sustainability Report 2019".

In 2019, Saipem also ran two series of events aiming to further stimulate dialogue with its stakeholders: in March, the three events in the Open Talks initiative (Technological innovation, Sustainable finance, Scenarios/Megatrends) and in November the first event of the Out-sounds series, focusing on the issue of Cyber security.

				
Local communities	Local organisations and NGOs	Vendors and business partners	Insurance partners	Business associations
<p>Contribution to local communities in terms of social and economic development and improvement in living conditions. Each operating company or project has a specific approach that takes the Company's role and the specific context into account.</p> <p>Active involvement of local communities in the implementation of development initiatives.</p> <ul style="list-style-type: none"> > 30 development initiatives for the local communities in 11 countries (Angola, Argentina, Azerbaijan, Congo, France, Guyana, Ghana, Kazakhstan, Indonesia, Nigeria, Senegal), reaching over 28,000 beneficiaries. €815,000 invested in these initiatives. > Cooperation in many countries (e.g. Guyana, Kazakhstan) with local schools and universities to encourage the development of human capital (e.g. training paths, internships, research projects, lectures at universities), study grants and training courses. > Raising awareness of HSE topics through workshops and conferences with the involvement of local communities. > 7 representatives of local universities, institutions and associations involved in the Saipem materiality analysis. > Engagement initiatives and dialogue on different business sustainability topics (e.g. Saipem Open Talks). 	<p>Regular publication of information, objectives and performance through Saipem's institutional channels.</p> <p>Identification of organisations of proven experience with which to establish short or medium-term relations in order to facilitate the implementation of specific initiatives.</p> <ul style="list-style-type: none"> > Various community initiatives developed through partnerships and cooperation with non-governmental organisations (e.g. Eurasia Foundation of Central Asia-EFCA in Kazakhstan for an educational programme; AVSI for a health initiative in Congo); Good World Shelter in Azerbaijan for an environmental initiative. > 1 ONG representative involved in the Saipem materiality analysis. 	<p>Commitment to developing and maintaining long-term relations with vendors. The process of Vendor Management makes it possible to assess their reliability in terms of technical, financial and organisational capabilities.</p> <p>Proactive engagement in HSE initiatives, such as environmental awareness campaigns or LiHS programmes.</p> <ul style="list-style-type: none"> > Corporate responsibility audits on vendors in Saudi Arabia, China and Spain. > Subcontractors involved in HSE initiatives (e.g. Subcontractor HSE Forum in Saudi Arabia; Safe Driving Campaign). <ul style="list-style-type: none"> > 68 vendors and business partners involved in the Saipem materiality analysis. > Engagement initiatives and dialogue on different business sustainability topics (e.g. Saipem Open Talks). 	<p>Commitment to developing and maintaining long-term relations with insurers. The risk transfer process makes it possible to secure insurance capability to cover our risk profile and exposures properly.</p> <p>Communication of safety and loss prevention initiatives and their results in order to obtain competitive terms and conditions.</p> <ul style="list-style-type: none"> > Engagement initiatives and dialogue on different business sustainability topics (e.g. Saipem Open Talks - Talk#1 on Sustainable Finance). > 6 insurance companies and brokers involved in the Saipem materiality analysis. > Organisation of the annual insurance road show in London. On this occasion, Saipem's risk profile and the aspects of its business sustainability were presented. 	<p>Active participation in and support of numerous international and local associations, contributing to sharing best practices within Saipem's business sectors.</p> <p>Contributions to strengthening Saipem's role in its industries and its relations with other stakeholders (i.e. clients, local stakeholders, etc.).</p> <ul style="list-style-type: none"> > Active member of 92 local and international business and trade associations. <ul style="list-style-type: none"> > In particular, the parent is a member of 51 associations, including: ANIMP (Associazione Nazionale di Impiantistica Industriale - Italian Association of Industrial Plant Engineering), Assomineraria (Italian Petroleum and Mining Industry Association), IADC (International Association of Drilling Contractors), IMCA (International Maritime Contractors Association), UN Global Compact, WEF (World Economic Forum), Confindustria. > Active participation in the ANIMP "Sustainable Supply Chain" project to define guidelines and actions for the growth and competitiveness of the Italian industrial plant engineering supply chain. > Over €1 mln spent in association memberships. > 6 representatives of business associations involved in the Saipem materiality analysis.

Relations with clients

Clients are one of Saipem's fundamental stakeholders, and guaranteeing their satisfaction is important both in terms of the profitability of projects and the effectiveness, efficiency and sustainability of the processes adopted for their implementation. Customer satisfaction monitoring and analysis systems are implemented in each division, to improve Saipem's operational management and performance in meeting the needs of clients and maintaining closer relations with them.

Direct assessment is regularly performed with the involvement of clients, through specific meetings and gathering information through satisfaction questionnaires. Furthermore, indirect assessment is performed without the explicit involvement of clients, through regular monitoring and the analysis of specific satisfaction indicators. All the results obtained through the customer satisfaction system are regularly reviewed by the Company Management to identify the critical areas and any preventive or improvement measures. In 2019, 48 operational projects were involved in direct assessment, with a 75% response rate (compared to 60% in 2018). 50% of those interviewed (compared to 70% in 2018) stated that they were fully satisfied with the Company's activities (i.e. with a total score of 9 or more on a scale of 0 to 10).

Relations with the financial community

Non-financial information is increasingly analysed by investors and the financial market, who look more analytically at the ability of a company to develop sustainable business strategies and plans over time, with measurable objectives and concrete actions that demonstrate the company's ability to manage risks and exploit the opportunities of changing markets and scenarios.

Saipem also makes available non-financial performance data and information to its investors and financial analysts to respond to this growing interest. Furthermore, Saipem fosters continuous dialogue with financial interlocutors, also through periodic road shows and specific meetings, always guaranteeing transparency and fair access to information.

In 2019, 14 investor road shows were held and over 300 contacts with analysts and portfolio managers were recorded. Saipem also took part in four international conferences for investors and in Italy took part in the Borsa Italiana Sustainability Day, with specific one-to-one meetings with investors.

This year, Saipem interacted on sustainability topics with 19 financial stakeholders interested specifically in ESG (Environment, Social, Governance) topics. Saipem is also included in key sustainability indices,

particularly the Dow Jones Sustainability World and Europe Indices, as leader in its reference sector; it has held a leadership position also in the FTSE4Good Index for the past ten years.

Relations with institutions and business associations



Implementing works and plants in different business sectors having acquired the necessary authorisations from its clients, Saipem does not need to establish institutional relations to promote its interests. Despite this, it encourages dialogue with institutions and with organised associations of civil society in all the countries where it operates. The Company manages its local, national and international stakeholder relations in line with the provisions of its Code of Ethics and its Business Integrity Guidelines and Policies, which require the adoption of behaviour based on correctness, transparency and traceability. These relations are exclusively handled by the relevant Company functions and positions identified, in compliance with approved plans and internal regulatory documents. Saipem does not make direct or indirect contributions in whatever form to parties, movements, committees, political organisations and unions, to their representatives and/or candidates, unless required by local law.

The Corporate Institutional Relations department is responsible for institutional dialogue, guaranteeing uniform and coherent relational strategies and communication to external parties. The Company can contribute to institutional consultations.

For example, in Italy, Saipem attended a hearing at a parliamentary committee within the fact-finding investigation regarding the implementation and adaptation of the National Energy Strategy into the National Energy and Climate Plan for 2030.

Saipem is also active in the "Smart Mobility and Artificial Intelligence" round table of the Lombardy Region (Italy) and took part in the 11th Italy-Latin America conference organised by the Ministry for Foreign Affairs and International Cooperation.

By virtue of the Group's solid international vocation, with a presence in over 70 countries, Saipem cooperates with the Italian diplomatic network and the embassies in Italy of the countries where it operates. This cooperation, along with the presence in industrial and business associations, guarantees the consolidation and communication of Saipem's long-term commitments and the value it generates in the territories it operates in.

At territorial level, Saipem guarantees dialogue and interaction with local representatives and civil society in the host communities, as this is deemed fundamental for ensuring relations based on criteria of transparency and correctness, founded on a lasting, shared value creation strategy. In this



context, Saipem supports local initiatives for communities, mainly in projects focusing on education, health and culture. For this purpose, stringent due diligence processes are applied to check the effective beneficiaries of its initiatives. Saipem is a member of numerous trade and employer associations, which – among other roles – represent their members before institutional interlocutors on business aspects. The association activities provide services to the Company, in terms of information and the analysis of developments in the laws and regulations of the referred country or sector, also guaranteeing opportunities for trade promotion and discussion with other companies. Saipem is also a member of several energy transition associations and networks, including the Global Carbon Capture & Storage Institute (GCCSI), and the associations CO2Value Europe, IHS and Hydrogen Europe.



Cooperation with international organisations and associations on the topic of climate change



As a key player in the energy sector, Saipem is an active member of specific trade associations in the countries in which it has a well-structured presence, taking part in events and discussions on environmental and climatic issues. Saipem is a member of EVOLEN (the French association of energy sector companies and professionals), which aims to disseminate technical and scientific knowledge among its members and

anticipate changes in the business, fostering cooperation and a long-term vision and supporting innovation and partnerships. This allows Saipem to be involved in a dynamic network, promoting its own technological excellences and sharing information and experience on different topics, including sustainability, energy efficiency and climate issues. Recently Saipem became a member of Renewable UK, the main renewable energy trade association in the United Kingdom, specialised in onshore and offshore wind, wave and tidal energy. Furthermore, Saipem takes part in the Norwegian Solar Energy Cluster, which aims to foster cooperation and support the development of solar energy skills. Saipem also takes part in the DeRisk-CO project, run in Italy by the Fondazione Eni Enrico Mattei (FEEM), a scientific research and dissemination project aiming to raise awareness of the risks and opportunities associated to climate change, which has the objective of studying instruments to analyse scenarios and promote communication among Italian businesses on this strategic topic. Through its international network, FEEM integrates its research and dissemination activities with those of top academic institutions and think-tanks worldwide. As part of this cooperation, in particular Saipem has supported the organisation of a seminar focusing on the analysis of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board, with particular reference to the identification of risks and opportunities and scenario analyses.

LA CORPORATE GOVERNANCE



The Governance Model

Saipem adopts a system of Corporate Governance that is based on the general and special regulations applicable to the Articles of Association, the Code of Ethics, the recommendations contained in the Corporate Governance Code of the Italian Stock Exchange and the best practices on the subject. Saipem’s system of Corporate Governance is based on the central role of the Board of Directors, on transparency and the effectiveness of the internal audit system. It should be noted that the Sustainability, Scenarios and Governance Committee is responsible for examining the

“non-financial disclosure” laid down in Legislative Decree No. 254 dated December 30, 2016, and issuing a prior opinion to the Board of Directors, which is required to approve this document. For a more detailed description of the governance of the aspects required by Italian Legislative Decree No. 254/2016, refer to the “Corporate Governance and Shareholding Structure Report”, in particular the section “Sustainability” and the sections regarding the Board of Directors, internal committees and risk management. The above-mentioned document is present in the “Governance” section of the Company’s website.

Governance of business sustainability

The current Board of Directors, comprising nine Directors, out of which four women, was appointed by the Shareholders' Meeting on May 3, 2018 for three years, its mandate expiring at the Shareholders' Meeting called to approve the Financial Statements at December 31, 2020. The appointment of Directors occurs pursuant to Article 19 of Articles of Association, through voting from a list, so as to allow the appointment of minority interest representatives and to ensure gender balance. All the Directors are aged over 50. The curriculum with the personal and professional characteristics of the Directors is available on the website www.saipem.com in the "Governance" section.

The responsibilities of the Board of Directors include the definition, at the request of the Chief Executive Officer-CEO, of the strategic lines and objectives of the Company and the Group, including their sustainability policies.

In relation to training delivered to the members of the Board of Directors, in November 19-21, 2019, a meeting of the Board of Directors was held in Doha (Qatar) and, for the occasion, a visit to the vessel "De-He" was organised for the Board members, offering the Directors and Statutory Auditors an extra opportunity to further their direct knowledge of the operational activities and assets used by the Company – in this case a vessel working in both shallow and ultra-deep waters for pipeline S-Lay and heavy lifting activities. On this occasion, the Board of Directors discussed an analysis on "Energy scenarios and strategic implications for the industry" prepared by a globally recognised company specialised in management consulting. The analysis focused on long-term market strategies for the preparation of the new Saipem industrial plan, which must also consider various "climate change" scenarios and the respective implications and opportunities for the Company in the management of the energy transition.

Further details on the composition, appointment and responsibilities of the Board of Directors can be found in the relevant section of the "Corporate Governance and Shareholding Structure Report 2019".

To perform its tasks more effectively, the Board has appointed its own internal Compensation and Nomination Committee (made up entirely of non-executive and independent Directors); the Audit and Risk Committee (made up entirely of mostly independent non-executive Directors) and the Sustainability, Scenarios and Governance Committee, made up of four non-executive Directors – including two independent Directors – and chaired by the Chairman of Saipem. The Committee is tasked with assisting the Board of Directors, with advisory, preparatory and consultative functions, for its evaluations and decisions relative to issues of sustainability connected to the performance of the Company's activities, to the dynamics of interactions

with all the stakeholders, to the Company's social responsibility, to the review of scenarios for the preparation of the strategic plan, and to the Company's and Group's corporate governance. The Sustainability, Scenarios and Governance Committee and the Chief Executive Officer-CEO promote sustainability issues within the Board of Directors, which during the year discussed key topics in this sense, including disclosure on Saipem's approach to "Climate Change", its implications on the business strategies and the initiatives taken by the Company in this area.

In 2019, the Saipem Board of Directors approved the new "Sustainable Saipem" Policy, also published on the company website, which sets out the Company's sustainability values.

In 2007, Saipem established an executive Sustainability Committee, composed of the top corporate management and heads of divisions, chaired by the Chief Executive Officer-CEO. The executive Sustainability Committee has the task of drafting sustainability policy guidelines and strategies for subsequent review by the Board's Sustainability, Scenarios and Governance Committee, and also provides indications and directives for the sustainability planning and reporting process.

Given the transversal nature of this topic, the sustainability objectives are defined, and must be disseminated within the Company, consistently with the various operational contexts and the requests emerging from stakeholder consultations and other contextual evidence. The Board of Directors approves the management performance plan, at the proposal of the Nomination Committee, through which the Company's objectives are assigned to the Chief Executive Officer-CEO. The plan is drafted on the basis of the Company's strategic plan. The objectives are then reported within a cascade process to the Company management and described in the short-term variable incentive plan. With reference to the 2020 Plan, the business sustainability objectives cover 15% of the short-term variable incentive, as described in detail in the "2020 Report on Saipem's Remuneration Policy and Paid Compensation".

The Organisation, Management and Control Model of Saipem SpA

"Model 231" (including the Code of Ethics)

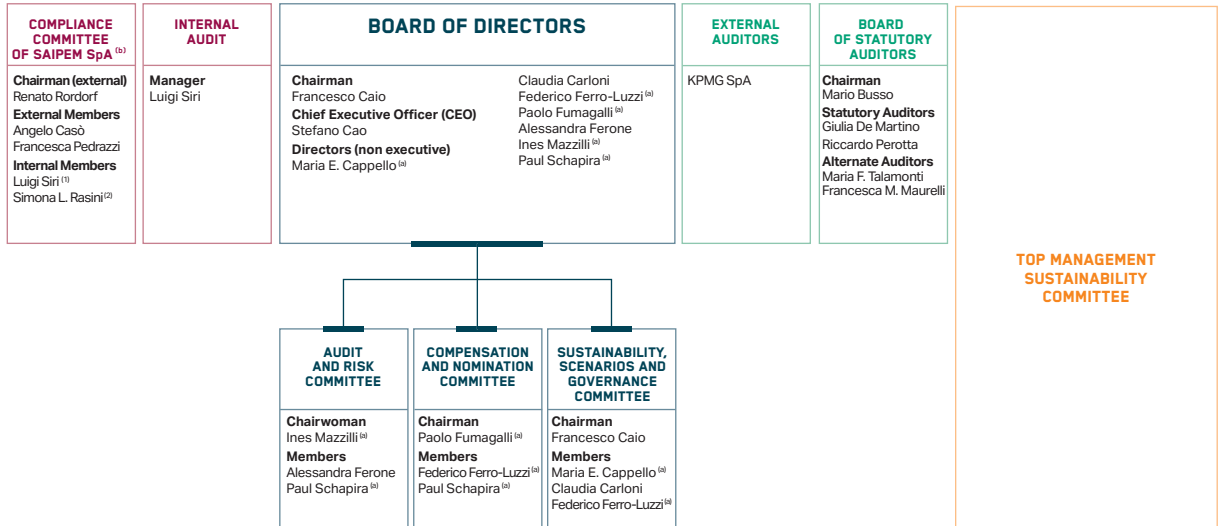
At its meeting on March 22, 2004, the Board of Directors of Saipem SpA resolved the adoption of an organisation, management and control model pursuant to Italian Legislative Decree No. 231/2001 (hereinafter, "Model 231"), aimed at preventing the commission of offences specified by Legislative Decree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

Later, through specific projects, Model 231 was updated to reflect changes in the legislation and in



MANAGEMENT AND CONTROL BODIES

EXECUTIVE LEVEL



(a) Independent.

(b) The Compliance Committee of Saipem SpA is composed of five members: three external members, one of whom is appointed Chairman of the Committee, and two internal members responsible for the Internal Audit (1) and Business Integrity (2) functions.

the corporate organisation of Saipem SpA. In particular, the subsequent updates of Model 231 have taken into account the following:

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

Lastly, March 2019 saw the completion of a Risk Assessment carried out to update Model 231 with reference to:

- > regulatory updates;
- > organisational changes that have taken place;
- > jurisprudence and most recent case law;
- > best practices.

At the end of these updates, on March 11, 2019, the Board of Directors of Saipem SpA approved the new Saipem SpA "Model 231 (including the Code of Ethics)". After the various timely updates made over the years, Model 231 of Saipem SpA has also been updated, inter alia, in accordance with the following regulations:

- > Italian Legislative Decree No. 24 of March 4, 2014, which intervened in the context of the trafficking in human beings and the protection of the victims amending Article 600 (reduction to or maintenance in slavery or servitude) and Article

- 601 of the Italian Criminal Code (trafficking in persons);
- > Italian Legislative Decree No. 39 of March 4, 2014, which introduced the crime of "grooming minors" into the crimes set out in Italian Legislative Decree No. 231/2001;
- > Italian Law No. 68 of May 22, 2015, "Provisions related to crimes against the environment" (so-called "Ecoreati", "Eco-crimes Act"), which introduces new cases of environmental crime;
- > Italian Law No. 167 of November 20, 2017, "Provisions for fulfilling the obligations arising from Italy being part of the European Union - European Law 2017". The provision aims to bring domestic regulations in line with EU regulations, also intervening on the liability of legal entities. In regulating the fight "against some forms and expressions of xenophobic racism by means of criminal law", the new Article 25-terdecies "Racism and xenophobia" provides for this as a crime within Italian Legislative Decree No. 231/2001;
- > Law No. 179 of November 30, 2017 on "Provisions for the protection of those reporting crimes or irregularities that they may have become aware of in the context of their public or private employment";
- > Italian Legislative Decree No. 107 of August 10, 2018, "Rules on the adaptation of national law to the provisions of Regulation (EU) No. 596/2014, relating to market abuses, repealing Directive 2003/6/EC and Directives 2003/124/EU, 2003/125/EC and 2004/72/EC";
- > Italian Law No. 3 of January 9, 2019, "Measures to combat crimes against the public administration, and relating to statute of limitations for those crimes and the transparency of political parties and movements".

COMMITMENTS, RESULTS AND OBJECTIVES

MATERIAL TOPIC	COMMITMENT	2019 RESULTS
Climate change and air quality	Gradually reducing our dependence on fossil fuels, concentrating on fields that have a lesser impact on the climate, investing in renewable technologies and developing more sustainable uses of fossil fuels, as well as diversifying activities.	<ul style="list-style-type: none"> > Updating the methodology for estimating emissions at Group level, certified by third parties, with a focus on indirect CO₂eq emissions. At division level, specific tools developed to estimate Saipem's carbon footprint throughout the supply chain. > Reduction of 18.8 kt of CO₂eq emissions achieved, in line with the 2022 objective set in 2018. > Around 8 kt of CO₂ saved through the implementation of energy efficiency initiatives and over 10 kt of CO₂ through the implementation of energy saving initiatives. > Extension to 2023 of the GHG Strategic Plan for a total cumulative reduction of 160 kt of CO₂ for the period 2019-2023. The objective set for 2022 will be the first target.
Energy efficiency	Optimising energy consumption, using the best available technologies and increasing operational efficiency.	<ul style="list-style-type: none"> > 22 energy diagnoses and feasibility studies carried out. > 5 good practice manuals drafted. > Devices installed in two Italian offices with a detailed instant energy consumption measuring system.
Innovation and digitalization	Aligning Saipem's business offering with business needs and with the market scenario.	<ul style="list-style-type: none"> > 18 new patent applications, 5 of which for decarbonisation technologies. > 17 cooperation agreements/licences signed, of which 9 for decarbonisation projects. > 163 FTE (full-time equivalent) resources involved in research and development. > €38 million spent on Research & Development; a total of €79 million spent on innovation, of which around 10% for decarbonisation (excluding Gas).
Talent and development	Maintaining employee skills in line with business needs and strengthening the Company image in order to retain and attract talented people.	<ul style="list-style-type: none"> > Millennials Road project launched. > Saipem's contribution to strengthening school curricula (e.g. Sinergia programme). > Continuing to implement the Reverse Mentoring programme. > Internships, training initiatives and transfer of know-how in various countries (e.g. Guyana, Italy, Mozambique, Saudi Arabia, etc.).
Well-being, health...	Guaranteeing a healthy workplace.	<ul style="list-style-type: none"> > Health risk assessment performed in projects/sites/vessels: 86% of all sites covered. > All projects/sites/vessels with standardised equipment and medical staff. > Implementation of electronic health management and tele-medicine programmes (e.g. the "My health records" app, tele-cardiology, tele-radiology, etc.).
... and safety	Strengthening the safety processes, culture and skills of our people, including vendors.	<ul style="list-style-type: none"> > 2.2 million hours of HSE training delivered, 35% of which to employees and 65% to subcontractors. > Around 1,300 LiHS events organised with over 38,000 participants.
Spill prevention and recovery	Reducing and mitigating the environmental risk associated to oil and chemical spills, guaranteeing the adoption of appropriate prevention and recovery measures.	<p>Coverage reached:</p> <ul style="list-style-type: none"> > O&CM (Oil&Chemical Mapping) for 10 sites/logistics bases and 25 Offshore E&C and Drilling vessels. > SRA (Spill Risk Assessment) implemented for 5 sites/logistics bases and 14 Offshore E&C and Drilling vessels.

2019 RESULTS VS. 2019 OBJECTIVES

2020 OBJECTIVES

<ul style="list-style-type: none"> > Implement the actions defined in the Strategic Plan, setting an overall target to reduce GHG emissions by 120 kt CO₂ eq by 2022 (2017 baseline), and monitoring the results obtained. 	●	<ul style="list-style-type: none"> > Implementation of specific GHG management initiatives (24, with specific objectives for each division). > Reduction of CO₂ emissions (annual objective of 19.3 kt of CO₂eq, with specific objectives for each division). > Review of the GHG Strategic Plan by end 2020.
<ul style="list-style-type: none"> > Fine-tune the Strategic Plan considering the first results obtained. 	●	
<ul style="list-style-type: none"> > Continue to perform energy and GHG reduction assessments. 	●	<ul style="list-style-type: none"> > Performance of specific energy diagnoses/feasibility studies (18, with specific objectives for each division).
<ul style="list-style-type: none"> > Implement the best Energy Practices Booklet for onshore rigs and offshore drilling vessels. 	●	<ul style="list-style-type: none"> > Increasing the number of specific initiatives aiming to reduce energy consumption/increase energy efficiency. > Where applicable, identifying the potential production/use of renewable energy in projects and sites.
<ul style="list-style-type: none"> > Installation of energy measuring system for two Italian offices. 	●	
<ul style="list-style-type: none"> > Pursue disruptive innovation solutions. 	●	<ul style="list-style-type: none"> > Developing a methodology to map value creation through sustainable innovation during project execution.
<ul style="list-style-type: none"> > Maintain the high investment in technology innovation. 	●	
<ul style="list-style-type: none"> > Launch of a new skill mapping programme. 	●	<ul style="list-style-type: none"> > Continuing to attract talents, with particular attention to young people and women.
<ul style="list-style-type: none"> > Design and set-up new process dedicated to the Millennial Generation (gamification, video interview, test on line). 	●	<ul style="list-style-type: none"> > Continuing to implement training initiatives, transfer of know-how and cooperation with schools in the countries we operate in.
<ul style="list-style-type: none"> > Launch the Sinergia Alumni, community dedicated to former Sinergia students. 	●	
<ul style="list-style-type: none"> > Continuous commitment to spreading a positive health culture and awareness among Saipem's workforce. 	●	<ul style="list-style-type: none"> > Continued implementation of the global electronic health system.
<ul style="list-style-type: none"> > Ensure implementation of health prevention, protection and promotion of programmes at all worksites including Occupational Health Management. 	●	<ul style="list-style-type: none"> > Development of the Work-care programme. > Development of a more healthy vision of the working environment, improving the health culture among employees, including the full implementation of the healthy diet programme.
<ul style="list-style-type: none"> > Lower the incidence rate of communicable diseases. 	●	<ul style="list-style-type: none"> > Guaranteeing continuous training of medical staff (85-90% of the medical staff).
<ul style="list-style-type: none"> > Enhance current and develop new e-health and telemedicine programmes. 	●	<ul style="list-style-type: none"> > Continued implementation of the cardiovascular disease (CVD) prevention programme. > Intensifying the audit programme.
<ul style="list-style-type: none"> > Pursue continuous improvement promoting and developing a safety culture, and strengthening the HSE audit planning system, also for project worksites. 	●	<ul style="list-style-type: none"> > Confirming the renewal of the Group's ISO 45001 and ISO 14001 certifications.
<ul style="list-style-type: none"> > Complete the migration of OHSAS 18001 certification to the new ISO 45001:2018 standard on "Occupational health and safety management systems". 	●	<ul style="list-style-type: none"> > Improving the TRIFR-target objective for 2020: 0.44. > Pursuing continuous improvement, promoting and developing a safety culture (with particular attention to road accidents and commuting accidents) and strengthening the HSE audit planning system.
<ul style="list-style-type: none"> > Improve the Total Recordable Incident Frequency Rate (TRIFR). 	●	
<ul style="list-style-type: none"> > Correctly map critical oil spill areas on vessels/drilling rigs/fabrication yards/projects and address them in the relevant documentation. 	●	<ul style="list-style-type: none"> > 100% coverage of sites/projects with specific accidental pollution emergency plans. > Increasing the number of spill drills, including scenarios relating to spills into water bodies. > O&CM target: 100% of offshore vessels; 100% of offshore sites; 40% of offshore drilling rigs; 100% of onshore sites/logistics bases; at least 1 onshore project. > SRA target: 100% of offshore vessels operational in 2020; at least 2 offshore sites; at least 1 onshore site/logistics base.

continued **COMMITMENTS, RESULTS AND OBJECTIVES**

MATERIAL TOPIC	COMMITMENT	2019 RESULTS
Long-term value creation	Working responsibly and cooperating with our stakeholders to create shared value, constantly minimising the potential negative impacts our operations and presence could produce.	<ul style="list-style-type: none"> > 30 initiatives implemented for local communities, targeting over 28,000 beneficiaries in 11 countries. €815,000 invested. > The economic value generated directly by Saipem is €9.1 billion.
Human Rights	Respecting international best practices on the subject of human and labour rights, monitoring effective compliance.	<ul style="list-style-type: none"> > Mapping of local agency personnel with key roles and interviews with 31 people to obtain feedback on recruitment practices and procedures. > Interviews with 11 international employees to continue to strengthen the adoption of good practices in foreign recruitment processes.
Responsible supply chain	Cooperating with our vendors to contribute to the development of their own business sustainability and to reduce/minimise sustainability risks within our supply chain.	<ul style="list-style-type: none"> > Continuing with the social responsibility campaign in the supply chain: 182 vendors assessed during the qualification phase and 8 audits conducted. > Delivery of the internal human rights and supply chain programme to over 300 employees. > Development of a tool to estimate Saipem's carbon footprint throughout the supply chain.
Ethics and compliance	Operating in conformity with the best ethical business practices.	<ul style="list-style-type: none"> > Over 3,700 employees trained on Model 231, Code of Ethics and anti-corruption. > Revision of the "Anti-Corruption" MSG which represents an improvement of the regulatory context of the "Anti-Corruption Compliance Programme" and of Saipem's corporate governance system on anti-corruption issues.
Transparency	Maintaining and increasing transparent communication and dialogue with all stakeholders on our business and the impacts generated.	<ul style="list-style-type: none"> > Annual publication of the Saipem Modern Slavery Statement in line with United Kingdom legislation. > Annual publication of the report on climate change, in line with TCFD recommendations. > Continuous dialogue with the financial community (e.g. organisation of 14 road show days and participation in 4 international investor conferences; active participation in the Italian Sustainability Day 2019 organised by Borsa Italiana with some one-to-one meetings with investors; a reverse road show day at the Saipem headquarters; meetings with over 300 people, including portfolio managers and buy-side analysts; engagement activities with 19 financial stakeholders on ESG topics; over 900 people took part in the four conference calls and webcasts on quarterly financial results. > 3 Open Talk events in March 2019 in Milan involving stakeholders (financial community, clients, business partners, etc.) on business sustainability topics.



OUR CONTRIBUTION TO MITIGATING CLIMATE CHANGE

The climate change reduction strategy

Saipem expects to gradually reduce its dependence on the fossil fuel sector, reducing its CO₂ emissions and continuously extending its range of services in sectors with less impact on the climate, working as a provider of innovative solutions to support clients in identifying the best technological choices with reduced carbon emissions.

The Company strategy is based on the following three pillars:

- > extending its range of services to its clients in sectors with less impact on the climate, investing in renewable technologies, developing solutions for a more sustainable use of fossil fuels and diversifying its activities. This implies strengthening its presence in existing markets with reduced carbon emissions (e.g. offshore windfarms, biofuels, concentrated solar power, etc.) and creating access to new markets (e.g. wave and tidal energy, ocean thermal energy conversion, energy storage, hydrogen and hybrid solutions). Furthermore, Saipem aims to diversify on the market, focusing on opportunities not

2019 RESULTS VS. 2019 OBJECTIVES

2020 OBJECTIVES

-		<ul style="list-style-type: none"> > Continuing to contribute to socio-economic development, also through the use of local staff, training and transfer of know-how, cooperating with local vendors and subcontractors. > Continuing to plan initiatives to contribute to the SDGs.
Define and implement a 3-year training and awareness programme at operational level in risk areas for Human and Labour rights.		<ul style="list-style-type: none"> > Developing an awareness raising tool on human rights in Saipem's activities. > Testing a human rights risk assessment tool at project level.
Strengthen human rights awareness among company functions involved in stakeholder relation activities.		
Extend the delivery of the internal human rights and supply chain programme to identified Procurement and Post Order functions.		<ul style="list-style-type: none"> > Continuing to support the improvement of the supply chain in terms of HSE standards and human and labour rights, also through partnerships with local business associations and institutions in the areas we operate in. > Identifying further areas/assets when a green procurement approach can be implemented.
Continue to provide periodic training and refresher courses to promote employee awareness.		
Continue to maintain an adequate system of internal control and risk management.		
Continue to periodically review the OM&C Model and related procedures.		
Continue to reinforce transparency in communications and relations with stakeholders.		
-		Maintaining a high level of pro-active involvement and disclosure on key corporate topics and issues; continuing to publish documents on climate change and organise initiatives for stakeholder engagement on innovation.

linked to energy, such as infrastructures for sustainable mobility, water resource management and environmental services for the circular economy. Finally, particular attention is paid to less carbon-intensive energy sources, particularly the use of natural gas as an energy source in the transition period (for example LNG);

- > becoming a key partner for its clients in the decarbonisation process. Major energy companies, as well as other high-carbon intensive industries, including steel and cement, are decarbonising their activities and working towards large-scale digital transformation throughout the value chain, involving key EPC vendors who invest in decarbonisation and digitalisation technologies.

Saipem aims to become the "preferred partner" of clients working towards energy transition;

- > improving the efficiency of its activities and operations to reduce greenhouse gas emissions; in 2018, Saipem established a four-year strategic plan for GHG emissions, to identify areas for improvement and specific objectives for reducing greenhouse gas emissions.

Analysis of the climate-related scenario

Energy transition brings competition among different energy sources and technologies, aiming to acquire

GRI 201-2

increasingly large shares of the energy mix. At Saipem, the assessment of long-term drivers in the sector is based on the analysis of different scenarios: each one describes a different path leading to a different long-term energy context by 2050. The scenario analysis is applied to the whole Group, covering macro-economic and energy trends which may have an impact on key business drivers. The sector scenarios are some of the elements considered in the strategic planning process; they are updated annually and discussed with the divisions and the Top Management, as well as in specific meetings of the Board of Directors. Both the long-term and short- and medium term scenarios are analysed in the planning process. The long-term scenarios developed by different sources (information providers, Oil&Gas companies, other stakeholders and intergovernmental organisations) were analysed and compared to assess their coherence with the 2 °C scenario. All analysed scenarios consider oil in the energy mix in the near future, while gas is envisaged to play a key role as a source able to drive the transition towards a more sustainable energy mix. In this context, large-scale investments in oil and particularly in gas infrastructures will remain necessary in the medium and long term, and it is expected that traditional clients will continue to invest in long-term strategic projects, particularly in some key regions including the Middle East and Africa. Cutting-edge technological solutions with lower environmental impact will increasingly be in demand, and this is a huge opportunity for Saipem. Commitment to technological development and the constant adaptation of the mix of innovative skills and initiatives are the most effective tool Saipem is using to tackle the climate change challenges facing the industry.

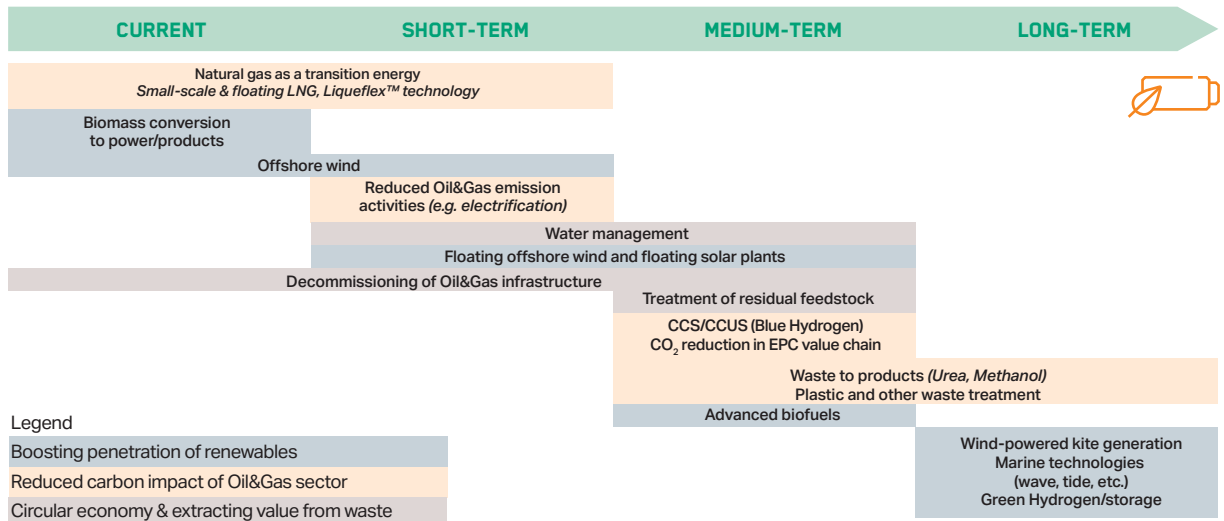
Diversification in less carbon-intensive business segments and, where possible, adjacent sectors in which Saipem can exploit its skills, will remain a strategic pillar for the coming years. An in-depth analysis of the scenarios, risks and opportunities relating to climate change is available in the document "Climate: from strategy to action", drafted in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board.

Innovation and research to fight climate change

The new energy panorama emerging in coming years will be a mosaic of many competing forces, which is difficult to forecast today. What is clear however is that the speed of innovation and the adoption of new technologies will be fundamental for making conventional developments more sustainable in the energy transition process. Saipem has identified many opportunities for providing cutting-edge, sustainable solutions to help clients meet the demands for a future with reduced carbon emissions. In 2019, the Company spent €7.5 million on research and development and the application of decarbonisation technologies, out of a total of €79 million spent on technological innovation. Furthermore, 5 patents were deposited for new low-carbon technologies, and 90 patents were acquired for decarbonisation technologies. More information is available in the "Innovating for the new energy scenario" and "Enabling carbon footprint reductions" chapters of the "Making change possible - Sustainability Report 2019".



ENABLING ENERGY TRANSITION THROUGH INNOVATION



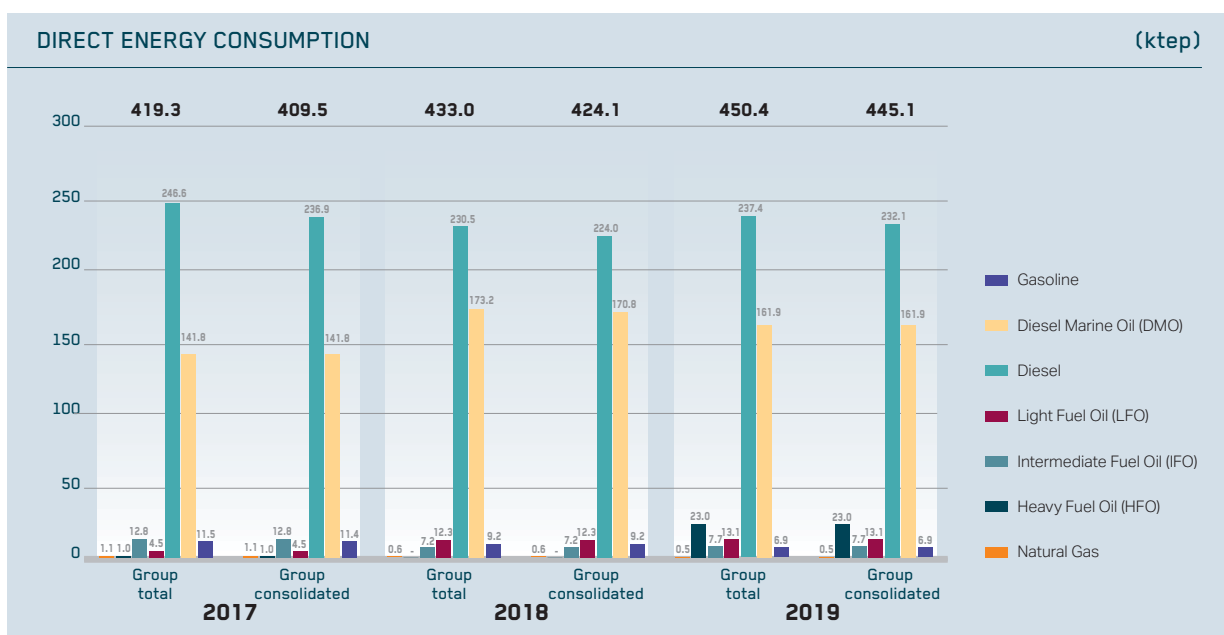
Energy efficiency

In 2019, direct energy consumption increased by 4% on 2018 at Group level, in line with the increase in activities (6% increase in man-hours worked on sites reporting environmental data). In particular, the sites with most consumption were the Tangguh LNG

Expansion Project (34 ktoe), the Saipem 7000 vessel (22 ktoe), the Jazan project (20 ktoe) and the South Gas Compression Plants project (20 ktoe). In 2019, Heavy Fuel Oil (HFO) and Intermediate Fuel Oil (IFO) stocks were used mainly by the vessels Saipem 7000, Castorone, DeHe and Constellation. It is however noted that from 2020 vessels in the



GRI 302-1
GRI 302-3
GRI 302-4
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		2017		2018		2019	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Indirect energy consumption							
Consumption of electric energy	(MWh)	92,309.9	92,307.7	88,996	85,069	80,171	78,177
Renewable energy							
Electric energy produced from renewable sources	(MWh)	352.4	352.3	297.6	297.6	368.3	368.3

		2017		2018		2019	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Total consumption of direct energy	(TJ)	17,555	17,144	18,128	17,756	18,857	18,635
Total consumption of indirect energy	(TJ)	334	334	321	307	290	283
Total energy consumption	(TJ)	17,888	17,478	18,450	18,063	19,147	18,918
Energy intensity	(TJ/Mln €)					2,1	-

The calculation of energy consumption in Joules uses the following conversion factors: for the consumption of direct energy 1 ktep = 41,867 GJ; for the consumption of indirect energy 1 MWh = 3.6 GJ. The energy intensity is calculated by the ratio between the total direct energy consumption and the total revenues, expressed in millions of euros.

fleet will no longer use HFO and IFO, so the consumption for these two fuels will no longer be reported. Furthermore, a slight increase in the consumption of diesel was recorded, used mainly in Onshore projects, including the South Gas Compression Plants project which began construction activities in 2019.

Electrical energy reductions relate mainly to a reduction in operational activities at the Kuryk yard (Kazakhstan), which takes electrical power from the mains. Moreover, Saipem continues to implement numerous initiatives aiming to reduce its own energy consumption and, consequently, its CO₂ emissions. The initiatives implemented are divided into three areas:

- > **energy saving**, aiming to reduce energy consumption by eliminating unnecessary wastes of energy and improving process management and efficiency;
- > **energy efficiency**, aiming to reduce energy consumption by installing more efficient equipment;
- > **renewable energy**, producing the same amount of energy with a lower emitting source.

In 2019, these initiatives led to a reduction in energy consumption of 223,236 GJ (223,844 GJ at Group level).

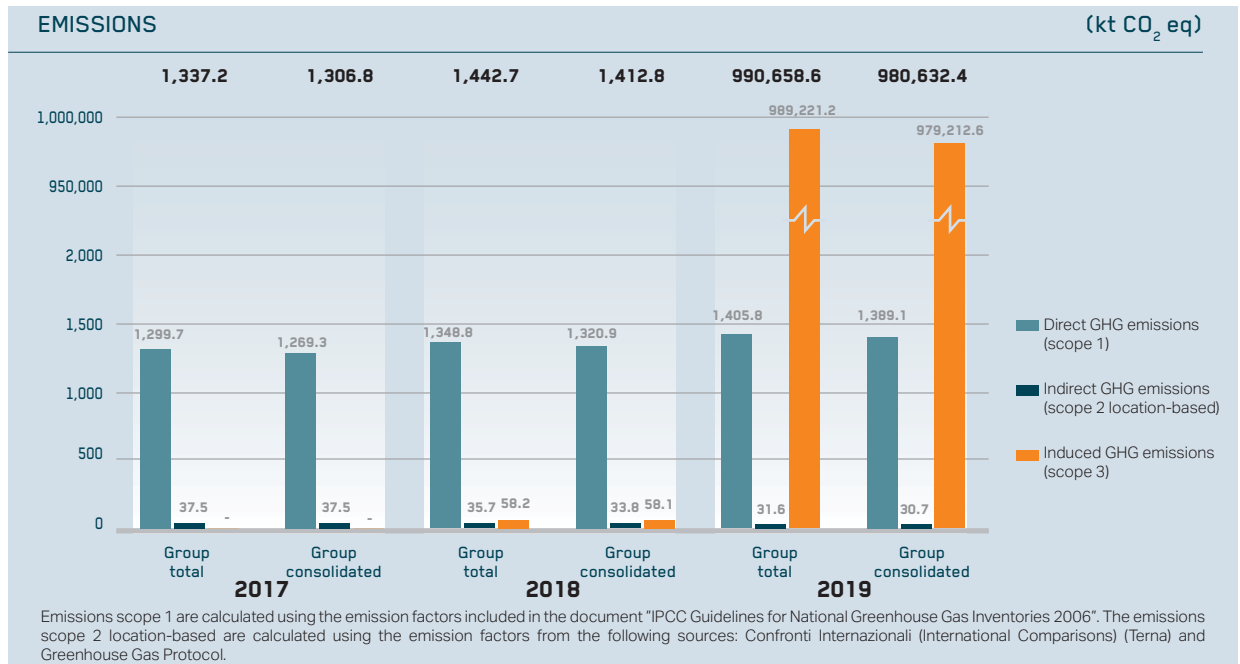
Examples of initiatives implemented in the year include: lighting efficiency in numerous onshore and offshore sites, improvement in consumption, procurement of energy with lower CO₂ emissions (for example, the electrification of rigs in Kazakhstan), implementation of smart working methods, increased efficiency of Saipem vessels (route optimisation initiatives and the Saipem eco Operation campaign), etc.

More information is available in the "Enabling carbon footprint reductions" chapter of the "Making change possible - Sustainability Report 2019".

GHG emissions

Among the Company's environmental priorities is the reduction of greenhouse gas emissions, including through energy efficiency initiatives. In 2019, Saipem decided to implement its policy of reducing GHG emissions, structured in 2018, by





	2017		2018		2019	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Market-based scope 2 emissions	-	-	38.2	36.3	33.8	32.9

Market-based scope 2 emissions were calculated using residual mix emission factors.

GRI 305-1
GRI 305-2
GRI 305-3
GRI 305-4
GRI 305-5

drafting specific four-year plans to outline a corporate vision on the theme of the improving the efficiency of its activities and consequent reduction of emissions. The plans are drafted annually, each year increasing the time horizon and reporting on the achievement of previously set targets. Through the energy saving initiatives described in the previous section, in 2019 CO₂ eq savings of 18,819 tonnes (18,846 tonnes at Group level) were achieved. In 2019, Saipem recorded a GHG intensity of 158.0 t CO₂ eq/€ mln (at Group level, the value is calculated considering the location-based scope 1 and scope 2 emissions in relation to revenue in millions of euro). In 2019, the Company also reviewed its method for estimating emissions, also obtaining certification by a third-party independent body according to the principles of standard UNI EN ISO 14064-3:2012. The method had already been revised for the first time in 2018, and the 2019 update mainly focused on extending the field of application of the method, particularly extending the emission categories of scope 3 emissions.

The main changes to the method concerned:

- > inclusion of an alternative and more accurate calculation for scope 2 emissions (indirect emissions deriving from the purchase of electrical power). The methodology developed in 2018 considered the national energy mix (location based methodology), while the new one also considers the effective production of procured energy (market based methodology);
- > inclusion of the following categories of scope 3 emissions:
 - extraction and transportation of the fuels used, directly and indirectly;
 - network losses in the transmission of purchased electrical energy;
 - water procurement and disposal;
 - procurement of materials and waste disposal;
 - shipment of materials;
 - employees' use of cars;
 - hotel accommodation during business travel;
- > review of the emission factors used to estimate emissions.

PROTECTING THE ENVIRONMENT AND MINIMISING ENVIRONMENTAL IMPACTS



Environmental management policies and system

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

In identifying, assessing and managing environmental and social impacts tied to business management, both potential and real, Saipem is guided by international regulations, principles, shared approaches and internationally recognised recommendations adopted in the industry including UN Global Compact principles (especially, principles 7,

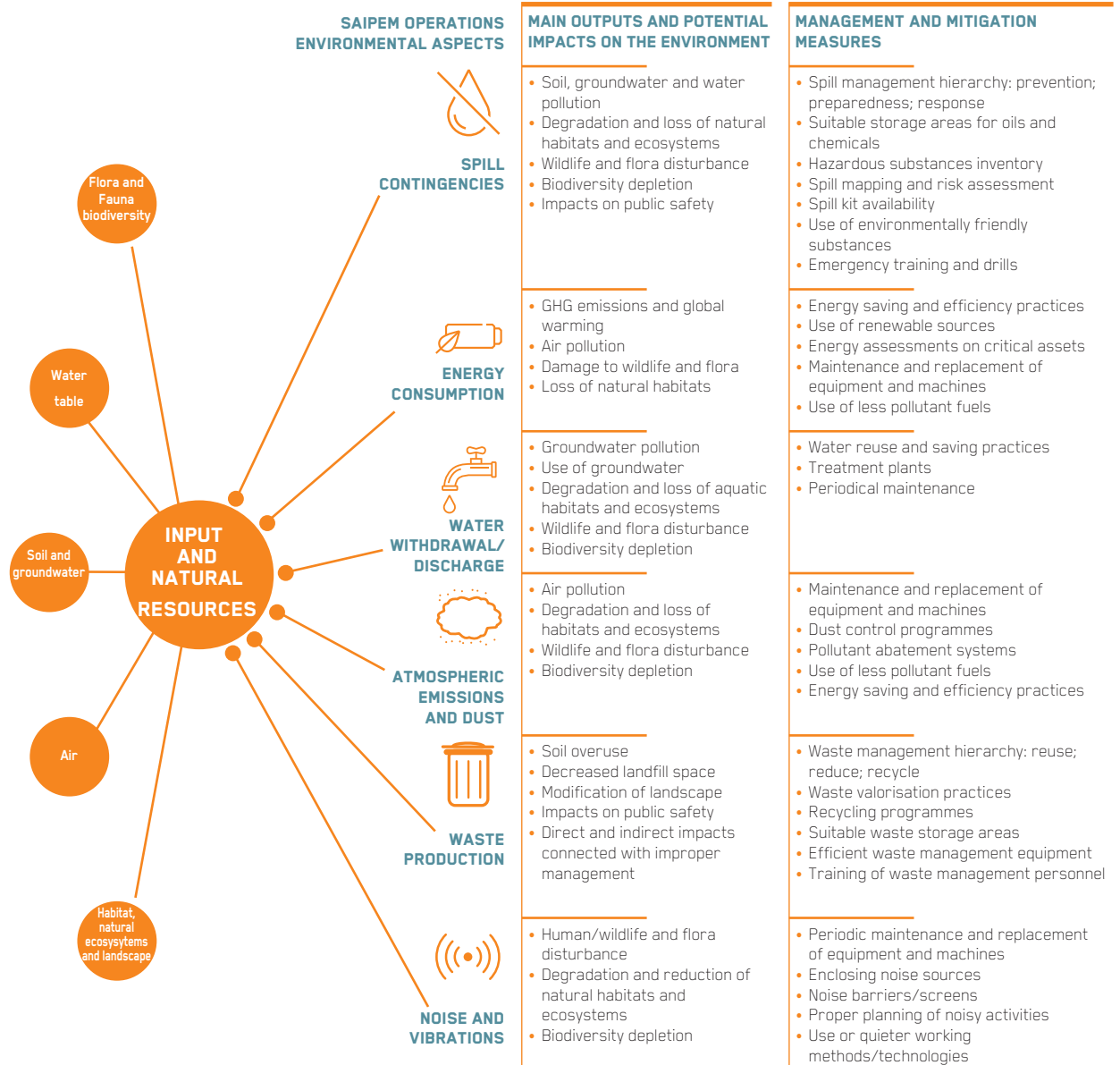
8 and 9 that refer to the environment), the principles expressed in the International Finance Corporation (IFC - World Bank) Performance Standards on Environmental and Social Sustainability, Organisation for Economic Co-operation and Development (OECD) guidelines for multinationals.

As described in the HSE Policy of Saipem SpA, the Company is committed to preventing the potential environmental impacts caused by its activities and using energy and other natural resources efficiently. Saipem takes all necessary measures to ensure environmental protection when carrying out its works, both for activities managed directly by its own personnel and using its own assets and operations managed by third parties for its operational projects (clients, subcontractors, etc.) in order to minimise and correctly manage the significant environmental aspects and impacts that may arise from them.





Moreover, Saipem pays the utmost attention to the constant improvement of its environmental

performance. To guarantee these results, Saipem has adopted a certified Environmental Management System. All the most significant entities in the Saipem Group are ISO 14001:2015 certified to support and guarantee the environmental management system adopted by the Company.

Saipem is aware of the real impacts of its activities and defines specific actions and tools required to manage these impacts for each operating context. Furthermore, the Company invests in research and development programmes to create technologies that minimise the environmental impact of its operations and of the delivery of its service to the reference sector, and organises specific initiatives designed to promote environmental awareness and the dissemination of best practices, also involving external entities as addressees. Further details can be found in the "Research and development" section of the Directors' Report and in the "Making change possible - Sustainability Report 2019".



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

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

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



GRI 306-3

Spill prevention and response

Pollutant spills are one of the most significant environmental issues for the sector in which Saipem operates. In the case of spills, the prevention of accidental events and response actions are absolute priority elements for their management. Saipem's spill management strategy is in fact focused on minimising the risk of spills and implementing emergency mitigation and management actions, for which it adopts advanced equipment and procedures. The Saipem management system is based on the following hierarchy of actions:

- > **Prevention:** actions have been implemented to identify specific areas of risk and improve processes and operational control of those sites and vessels which are most at risk of spills.
- > **Instruction and training:** specific training events on spill prevention are periodically organised, along with drills aiming to improve the skills of operating

staff in emergency management. The drills are carried out both on land and at sea, involving, if necessary, clients or third parties designated for emergency response activities.

- > **Emergency response:** all Saipem sites have the necessary equipment for tackling any emergency which may arise and specific Spill Response Teams have been set up and trained. Each operating site implements a spill management plan which identifies the accident scenarios and adequate response modes and can also include the intervention of designated third parties.
- > **Reporting:** the data concerning spills and "near misses" (events that, under slightly different conditions, could have caused environmental damage) are monitored by a specific software and subsequently analysed to assess the causes, prevent recurrence and share the "lessons learned" within the Company.

		2017		2018		2019	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Number of spills							
Total	(No.)	26	23	18	17	54	54
Chemical spills	(No.)	8	8	5	5	16	16
Oil spills	(No.)	18	15	13	12	38	38
Volume of spills							
Total	(m³)	6.21	6.07	7.22	3.25	10.40	10.40
Chemical spills	(m³)	3.58	3.58	0.77	0.77	7.60	7.60
Oil spills	(m³)	2.63	2.49	6.46	2.49	2.90	2.90

More information on the actions taken by Saipem to reduce the risk of spills is available in the "Keeping people and operations safe and sound" chapter of the "Making change possible - Sustainability Report 2019".

In 2019, the total number of spills increased mainly due to the change in the internal reporting rule, with the minimum spill limit for reporting reduced from 10 litres to 1 litre, to ensure better alignment with the internal incident management rules (the internal regulation states that any spills with a spilled volume of 1 litre or more must be treated as incidents). Out of 54 total spills, in fact 23 were less than 10 litres. The sites with the highest number of spills above 10 litres were the Tangguh LNG Expansion Project (Indonesia), the Pioneer vessel and the Hawiyah project (Saudi Arabia).

The spill volume has increased mainly following five events with spills greater than 1 m³, the two largest of which were of 2 m³:

- spill of 2 m³ of waste water in the accommodation modules (categorised as a chemical substance in the reporting rules) into the soil from a tank in the Hawiyah project;
- spill of 2 m³ of motor oil into the sea due to the mechanical damage of a thruster on the vessel Constellation. Following the incident the thruster was overhauled and repaired.

Each spill is assessed in terms of criticality, according to the actual and potential consequences of the event. No events occurring in the year had severe consequences. Each event is analysed in terms of its cause and suitable measures are adopted to prevent and minimise the risk of it happening again in future.



Water resource management

Considering the geographical location of the Company's important operating activities, water is a significant aspect (albeit not identified as a material topic) to be monitored and managed. In fact, important operating activities are carried out in areas considered "under water stress", where the implementation of a strategy to reduce withdrawal and use the resource efficiently is considered a priority. The re-use of water, after suitable treatment, is a key activity to minimise water withdrawal.

The commitment to a responsible management of water resources is transmitted to all Company levels through the issue of annual Group HSE plans, which are then implemented by the divisions and operating companies.

The awareness of growing pressure on water resources, despite significant territorial variations, is driving Saipem to focus more on the development of new water technologies and the improvement of its water management.

The water resource management strategy is an integral part of the environmental strategy and is defined in the environmental management system documentation; it is also an objective of the Group HSE plan.

The hierarchical approach to water management aims to maximise reuse, where possible, and reduce water consumption in all operational sites and projects, particularly those in water-stressed areas. Saipem is aware of the need for greater resilience in the planning and management of water resources, also to react to the effects of climate change.

In some regions, there could be an increase in water availability, while in others a reduction in availability, leading to water stress and competition for resources, throughout the project life cycle. Each year Saipem maps its sites located in water-stressed areas, in order to raise awareness in the sites and projects. The analysis of water flows and areas with high levels of water stress constitutes the basis for the subsequent definition of initiatives to reduce consumption and mitigate the associated impacts.

Water management plans focus on the identification of critical aspects and propose actions to reduce water consumption and increase the percentage of reuse, including an analysis of water usage and consumption, identifying the most significant consumption points, as well as identifying and prioritising initiatives to reduce water consumption and increase water reuse.

Normally the waste water treated can be reused for dust abatement, irrigation, hydrotesting (in accordance with specific regulatory limits).

Furthermore, potable and non-potable water systems are separated in the design of logistics bases, sites and fields.

In 2019, Saipem began some initiatives to improve and increase the efficiency of its water resources, including:

- in the Tangguh LNG Expansion Project (TEP), considering the scarce availability of surface and underground water resources on the site, three SWRO units were installed (to treat sea water using reverse osmosis), one unit with a capacity of 500 m³/day and two units with a capacity of 1,500 m³/day, to desalinate the sea water and supply water to the site for both domestic and project uses. The treated waste water is also reused for dust abatement and irrigation;
- in the Al Zour project in Kuwait, a country subject to water stress, water flow rate reduction systems were installed in the toilets; this initiative was implemented both by Saipem and the subcontractors working in the area.

Every year Saipem celebrates the World Water Day (March 22) as a further opportunity for raising awareness and launching initiatives on this topic. Furthermore, the initiatives carried out in the local communities are yet another opportunity for raising awareness and introducing best practices for the management of water resources, particularly in areas where the analysis of the local context highlights water stress, scarce potable water and hygiene conditions.

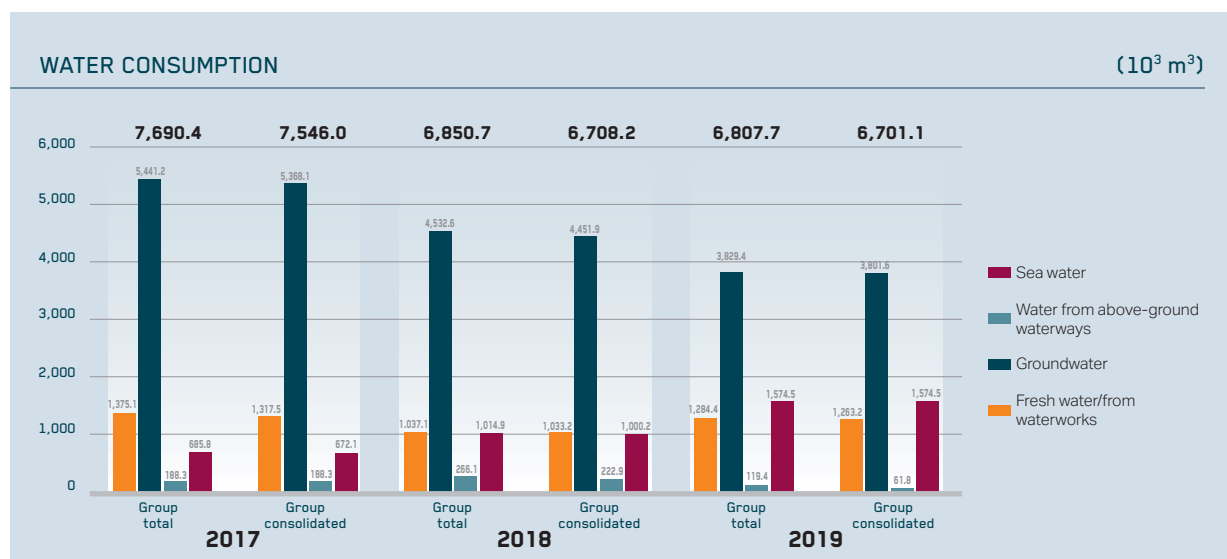
Water consumption generally remained stable compared to 2018. In particular the following were recorded:

- an increase in withdrawal from fresh water/mains water systems, mainly in the onshore projects

GRI 303-4 (2018)
GRI 303-5 (2018)
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EM-SV-140A.2

DUQM (Oman) and SGCP (South Gas Compression Plant - Saudi Arabia), which both began in 2019;
 > a reduction in the water withdrawn from underground aquifers, due to reduced supplies to the San Donato Milanese offices (which use water

for the internal air conditioning system) and the completion of the Jazan project (Saudi Arabia);
 > an increase in sea water withdrawal, due to the increased activities in the onshore Tangguh LNG Expansion Project (Indonesia).



	2017		2018		2019	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Recycled and re-used water						
Re-used water	(10 ³ m ³)	1,179.8	1,179.2	1,641.0	1,640.8	1,657.1
	(%)	15	16	24	24	24

Sewage water discharges

(10 ³ m ³)	2017		2018		2019	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Total discharged water, of which:	5,657.0	5,536.7	4,232.9	4,099.7	3,468.9	3,424.7
- water discharged into the sewer systems	642.8	642.8	380.4	377.6	185.5	180.1
- water discharged into bodies of surface water	3,605.4	3,605.4	2,388.6	2,388.6	1,592.3	1,592.3
- water discharged into the sea	515.4	395.1	729.3	677.3	1,115.2	1,076.4
- water discharged to other destinations	893.4	893.4	734.7	656.3	575.8	575.8

The reduction in water discharged into sewer systems is due mainly to the application of the internal reporting rule which, from 2019, requires discharge water disposed of legally as waste to be reported as waste and not as discharged water. See the section on waste for a more complete explanation.
 Water discharged into bodies of surface water was reduced as a result of the lower consumption at the San Donato Milanese site (Italy) and the closure in 2018 of the operational activities of the South Caucasus Pipeline Expansion project (Azerbaijan). Discharges into the sea are due mainly to the operational activities of the Tangguh LNG Expansion Project (Indonesia).

these are also caused by energy consumption. Saipem's methodology for estimating emissions includes the following pollutants: NO_x, SO₂, CO, PM10 and NMVOCs. The emission factors were updated during the last reviews of the calculation methodology.
 In particular, during the 2018 methodology update, the NO_x and CO emission factors were significantly reduced, the NMVOC and PM10 factors slightly increased and SO₂ factors remained constant, influencing the emissions trends between 2017 and 2018.
 Compared to 2018, the 2019 pollutant emissions trends follow the energy consumption trends (slightly increased), with the exception of CO, which, emitted mainly from petrol combustion, has fallen. Pollutant emissions were calculated using the following source: EMEP/EEA air pollutant emission inventory guidebook 2016.



Preserving the air quality

The Company policy of reducing GHG emissions has a strong impact on the reduction of air pollutants, as

Air pollutant emissions

(t)	2017		2018		2019	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
NO _x	22,575	22,244	15,899	15,648	16,536	16,338
SO ₂	4,610	4,552	5,045	4,958	6,514	6,483
CO	14,480	14,353	9,448	9,393	7,935	7,889
NM VOC	936	924	1,119	1,101	1,146	1,131
PM10	533	519	596	581	636	628

The energy efficiency interventions and processes described in section "Energy efficiency" also led to

reductions in the emissions of other air pollutants, particularly NO_x and SO₂.

Reduction in pollutant emissions

(t)	2017		2018		2019	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
NO _x	194.9	194.9	50.1	36.2	257.8	257.2
SO ₂	52.8	52.8	15.2	13.1	111.3	111.2
CO	51.6	51.6	6.9	5.0	33.0	32.9
NM VOC	5.1	5.1	2.7	1.9	7.8	7.8
PM10	3.0	3.0	1.6	1.2	8.4	8.4

Waste management

The Company implements a responsible waste management system that is specific for each type of operating activities.

Waste management is tackled by applying a hierarchy of operations mainly aimed at minimising waste production through the use of appropriate procedures or technologies, re-using waste as material and recycling it after the most appropriate treatment.

Priority is given to hazardous waste in the context of action aimed at minimising waste generation.

The Company promotes and implements measures, also through the research and development of new

materials, which allow hazardous materials to be replaced with non-harmful alternatives.

Saipem ensures appropriate waste management through waste management procedures/plans at both operating company level and individual project and site level.

The increase in waste in 2019, in particular the category of non-hazardous waste disposed of in landfill sites, is mainly due to the updating of the reporting methodology, in which discharge water disposed of legally as waste (non-hazardous or hazardous, according to local legislation) is reported as waste and not as discharged water. The amount of water in this case is more than 500 kt.

(kt)	2017		2018		2019	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Total weight of waste produced, of which:	431.3	426.0	381.5	378.6	953.0	933.3
- hazardous waste disposed of in landfill sites	61.2	61.1	102.2	102.1	238.5	238.5
- incinerated hazardous waste	2.3	2.3	4.2	4.2	3.1	3.1
- recycled hazardous waste	6.9	6.9	3.5	3.4	11.1	11.0
- non-hazardous waste disposed of in landfill sites	172.4	168.6	188.3	188.2	638.2	623.6
- incinerated non-hazardous waste	3.6	2.6	2.7	2.7	2.2	2.2
- recycled non-hazardous waste	185.0	184.6	80.6	78.2	59.9	54.9

SOCIAL ASPECTS

Social policies and management

The Company operates in over 70 culturally and geographically different and distant countries often in contexts characterised by difficult situations and border issues. The Company takes into account the specific issues of each country when assessing social aspects linked to its activities.

For the social impacts linked to the operational projects it works on, Saipem bases its assessments on socio-economic impact studies and

assessments normally produced by its clients or, where necessary and established contractually, developed internally. The operations in which Saipem has direct responsibility for the impacts generated at local level and the possibility to manage them concern the fabrication yards or proprietary logistic bases. In these cases, Saipem identifies and assesses the potential effects of its activities on the social context in order to minimise their adverse impact and to define and implement specific activities and projects aimed at developing the local socio-economic context working with the identified local stakeholders.



GRI 306-2







In the countries where the Company's presence is medium/long term, Saipem has established a lasting relationship of mutual collaboration with the local stakeholders. Some significant examples are the collaborations with the university and school bodies, the collaborations with the university and school bodies, the representatives of local institutions, the non-governmental organisations active in the areas and the local bodies for the implementation of development programmes and the promotion of health.

In addition to that indicated in this document, Saipem provides a thorough description of the stakeholder engagement actions in a specific section ("Enduring relations") of the "Making change possible - Sustainability Report 2019". Saipem has always strived to minimise any adverse impacts on the territory and to contribute to maximising positive impacts through the implementation of strategies aimed at promoting sustainable local development.

The overall risk profile (including the social one) for every project is identified, analysed and monitored from the commercial phase. An important tool is listening to the demands of the local stakeholders, also by means of consolidated engagement processes. In particular, the Company has drawn up a criteria (Guidance on Grievance Management) for structuring a system to collect and manage the demands of the local communities in the operating realities where it is considered necessary or requested by the client. This process allows potential negative social impacts to be identified and managed or mitigated.

Different geographical realities and some of the most significant operational ones (e.g. Nigeria, Italy, Oman, Indonesia, Mozambique) have implemented these systems to guarantee effective communication with the communities.



SOCIAL ASPECTS	CULTURE AND LIFE STYLES 	DEMOGRAPHICS 	WELLBEING AND SOCIAL INFRASTRUCTURES 	ECONOMIC IMPACT 
MAIN SOCIAL IMPACTS	<ul style="list-style-type: none"> > Erosion of traditional values and local customs > Increase in the social problems of some vulnerable population groups > Discrimination and marginalisation of indigenous people > Risk of conflict and local unrest 	<ul style="list-style-type: none"> > Immigration due to the greater attractiveness of the geographical area of the site > Emigration/relocation due to the traditional use of natural resources competing or conflicting with project activities 	<ul style="list-style-type: none"> > Effect on local facilities and public health > Effect on traffic and road safety > Access to social infrastructures 	<ul style="list-style-type: none"> > Increase in direct and indirect employment and in wage levels > Increase in prices of goods and inflation rate > Purchasing of local supplies and general boost in the local economy > Changes in local economic structure > Increase in dependency of the local economic system on a specific industrial sector
POTENTIAL MITIGATION MEASURES	<ul style="list-style-type: none"> > Cultural heritage protection plans > Proper selection of security service providers > Drug and alcohol testing of the workforce > Cultural awareness sessions and human rights training programmes for employees 	<ul style="list-style-type: none"> > Transparent recruitment strategies > Management of local expectations 	<ul style="list-style-type: none"> > Health promotion initiatives > Safe driving awareness sessions 	<ul style="list-style-type: none"> > Transparent recruitment and sourcing strategy
TOOLS ADOPTED Stakeholder consultation, community grievance mechanism and community relations plans				

Context analysis	Identification and evaluation of potential impacts	Planning and implementation of mitigation measures
Analysis of the socio-political, cultural and economic conditions of the area interested by the project.	Identification and subsequent evaluation of impacts which may occur during the entire life of the project. The impacts can be classified as: <ul style="list-style-type: none"> > direct impacts: that are a direct result of project activities; > indirect impacts: that result from other developments or activities that would only occur as a result of the project. 	The purpose of adopting mitigation measures is to remove, minimise and/or compensate residual adverse effects to a reasonably feasible extent. Mitigation measures could consist of integrating proposed actions into the design of the project, changing or adding technical or managerial aspects. Mitigation actions could include activities to be implemented both within the project site and in neighbouring areas.
STAKEHOLDER ENGAGEMENT PROCESS		

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

Risks identified by the Company Summary of adopted risk mitigation measures

Saipem material topic
Management of an ethical supply chain

Fraud, corruption, lack of transparency, loss of confidential information and data, non-compliance with procedures and regulations.



Saipem updates its Organisation, management and control model pursuant to Italian Legislative Decree No. 231/2001 (hereinafter, "Model 231"), which is aimed at preventing the commission of the crimes sanctioned by this decree; "Model 231" includes the Saipem Code of Ethics, which contains the set of rights, duties and responsibilities addressed to Model recipients. In addition, Saipem is engaged in training activities on ethical issues, including anti-corruption, and on updates to "Model 231". The Company has developed an anti-corruption management system that obtained certification of compliance with the international standard ISO 37001 in 2018. Lastly, the Group has a monitoring and control system in place for vendors who may engage in fraudulent activities, possibly evaluating their suspension.



Relations with the local context

Saipem is committed to establishing relations with its local stakeholders based on correctness and transparency in order to pursue concrete shared objectives for sustainable development. This is achieved by strengthening mutual trust, seeking dialogue and promoting the right conditions in order to establish lasting cooperation in the countries where the Company operates. Wherever it works, Saipem contributes to the social and economic life of the territory, also and not only in terms of local employment and creation of value. Saipem's relations with local stakeholders therefore depend on the type of operating presence in each particular area. This presence is divided between: long-term presence where the Company owns fabrication yards or other operating structures that allow complex relations and partnerships with various local stakeholders or their representatives to be established; and short/mid-term presence where Saipem is involved in a specific project within set contract deadlines and, as a result, participates in more targeted and short-term sustainable development initiatives. Saipem's involvement and dialogue with local stakeholders therefore depends on the type of presence in each particular area, contract requirements set by clients on projects and the partners with which the Company operates, as well as the characteristics and social composition of the relevant context. Where Saipem intends to create new, long-term work sites, it carries out specific assessments designed to analyse the potential effects of its activities on the local socio-economic context. To do so, it uses instruments including the ESIA (Environmental Social Impact Assessment), after which the Company defines action plans to manage

the impacts generated for local communities and the engagement of stakeholders. To support this process, Saipem has implemented specific tools for analysing the local context and for the identification and analysis of the main stakeholders for the purpose of defining intervention plans. In operating projects, Saipem supports the client's activities, in line with contract requests and the requirements the latter received and/or agreed with local authorities through specific studies such as EIA (Environmental Impact Assessment) or, as mentioned above, ESIA.

Local presence

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



GRI 202-2

Local employment

	2017		2018		2019	
	Group total consolidated	Group total consolidated	Group total consolidated	Group total consolidated	Group total consolidated	Group total consolidated
(%)						
Local employment	76	74	73	71	74	71
Local managers	46	45	45	44	44	43

An employee is considered local if he/she works in the country where he/she was hired. Local managers include both middle and senior managers. Given the large number of employees in the two headquarters in Italy and France, the percentage of local managers is calculated excluding the data for these two countries, in order to provide an effective representation of the Company's commitments in the countries where it operates.



GRI 308-1
GRI 412-2
GRI 412-3
GRI 414-1

A sustainable supply chain

Saipem's business is characterised by a highly complex global supply chain, covering different geographical areas and different industrial sectors. Today Saipem has almost 24,000 qualified vendors, 7,000 of whom were qualified in 2019. During the year, purchases were made mainly from vendors located in Europe and the Middle East.

In over 60 years of business in numerous countries in the world, Saipem has created a consistent and profitable network of partners and vendors; over 5,000 vendors have worked with Saipem for at least 10 years.

The vendor management system was structured to guarantee that they have proven technical and operational skills, but also that they share Saipem's values and policies. For this purpose, some sustainability elements to analyse and monitor in the various phases of the vendor management system have been identified; these elements include ethical behaviour, respect for human and labour rights, including the protection of the health and safety of workers, and environmental protection.

First of all Saipem's vendors are bound to comply with the principles that are an integral part of the Code of Ethics, and respect human rights in conformity with the Saipem sustainability policy, as required in the contractual clauses laid down in all contracts. Vendors are responsible for managing risks in their operations, and the company requires that, in turn, they ask for the same principles and standards from their own vendors. In this way, Saipem aims to guarantee safe and fair working conditions and the responsible management of environmental and social aspects throughout the procurement chain.

During the qualification process, the analysis of vendor information is the first step for knowing and understanding their capacities. This phase involves the gathering of data and information, as well as the vendor's documentation, to evaluate:

- > their technical and managerial skills, including their alignment with quality standards;
- > their financial, reputational and ethical reliability;
- > their ability to manage sustainability issues.

The level of risk linked to sustainability issues is determined by the country of origin of each vendor and the industrial sector and/or criticality of the supply. The vendors identified with a high sustainability risk level are subject to more in-depth investigations.

In particular, depending on the type of goods or services offered, vendors are subjected to a Counterparty Risk Assessment ("VERC"), aiming also to verify their ethical conduct in terms of anti-corruption, unlawful conduct and human rights, as well as any other aspect which could directly damage the reputation of the vendor, and indirectly the reputation of Saipem. The VERC is performed by analysing the key characteristics of the

counterparty, with particular attention to economic-financial, ethical/reputational aspects and ownership.

The counterparty risk assessment on vendors or potential vendors is usually done by checks that do not involve contacts with the counterparty, gathering available information from specialised third-party sources. The VERC may be performed not only at the start of the qualification activity, but also during the contract award phase or during the performance of periodic inspections, where foreseen.

Furthermore, depending on the level of risk of exposure to problems linked to human rights and/or HSE aspects, vendors are assessed by analysing the documents provided during qualification, to check compliance with the Saipem principles and the vendor's ability to manage these issues.

Furthermore, depending on the level of sustainability risk, the vendors subjected to qualification audits may also be assessed on specific sustainability aspects, including labour rights, health and safety and environmental protection. In 2019, 8 vendors were subjected to an on-site inspection, which also included the analysis of sustainability aspects (labour rights and/or HSE). These audits are also carried out with the support of specialised external experts. The results of the audits mainly concerned the health and safety, respect for working hours and salary categories. On the basis of the audit results, vendors are requested to respond with an improvement plan, implementing corrective actions which are monitored over time.

During the offer and contract execution phases, further controls are performed, including a counterparty risk assessment according to the total value of the supply. For goods and services deemed to be of high risk of health, safety and environment issues (HSE), specific assessments are carried out to check the vendor's ability to perform the contract in accordance with the relative international and Saipem standards.

Furthermore, the contractual conditions applied to all vendors and all types of purchasing include specific requirements that oblige the vendor to strictly comply with the Saipem Code of Ethics and to respect human rights.

In order to share the ethical principles, inform and train vendors on the Saipem standards and requirements and how they should align to these, Saipem organises specific events, meetings or forums for vendors, both prior to qualification and during the execution of the contracts.

Periodic training sessions with vendors are also organised to discuss HSE issues. More information on this is available in the "Generating shared value" chapter of the "Making change possible - Sustainability Report 2019".

Vendor performance and compliance with contractual provisions are constantly monitored: all the Saipem functions involved in the various phases





of the procurement chain management system are bound to provide feedback on the conduct of vendors, including on sustainability aspects, such as any incidents occurring during the execution of the work, conformity with local HSE or labour legislation, or legal proceedings brought against them for serious breaches/offences, etc. The information is

gathered by analysing documents and evidence collected during site inspections and audits. The feedback received guarantees the assessment of the vendor's overall reliability and the possibility to terminate the contract or suspend the vendor's qualification.

DIAGRAM OF KEY PROCESSES AND INSTRUMENTS IMPLEMENTED TO MANAGE SUSTAINABILITY ISSUES IN THE PROCUREMENT CHAIN

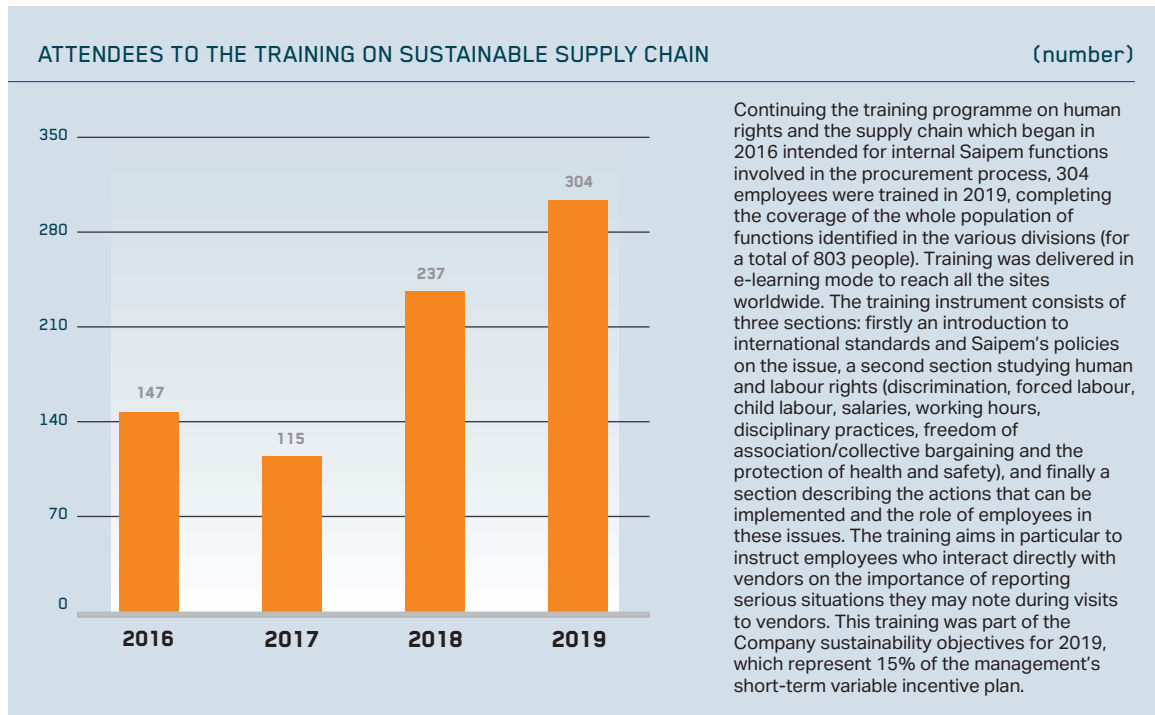


		2017	2018	2019
Active vendors	(No.)	26,345	23,845	23,871
Qualified vendors	(No.)	6,918	7,026	7,721
Vendors qualified in the year working in countries at risk of human and labour rights breaches	(%)	59	40 (*)	35
New vendors assessed on labour rights issues	(No.)	94	174	182
Vendors qualified in the year for activities considered at HSE risk	(%)	4	7	7
Vendors assessed on HSE issues	(No.)	278	466 (**)	574
Qualification audits, of which:	(No.)	62	28	27
- on human and labour rights	(No.)	14	10	8

It must be stated that the numbers in the table are representative both for the total perimeter of the Group and the full consolidation perimeter, because a vendor qualified at corporate level can potentially work with all the entities in the Group.

(*) For a more transparent representation of the indicator, starting from 2018 it is calculated on the number of qualified vendors, rather than on the number of completed qualification processes.

(**) The methodology was changed from the previous year due to a methodological refinement that allows for a more accurate representation of the indicator.





SAFEGUARDING THE HEALTH AND SAFETY OF PEOPLE

GRI 403-1
GRI 403-7



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

This commitment is an essential pillar of the HSE Policy of Saipem SpA and the Policy "Integrity in our operations".

The safety of people is constantly monitored and guaranteed through an integrated health, safety and environment management system, which meets the international standards and current legislation.

In 2019, following the periodic audit by a third-party certification company, the new ISO 45001 certification was issued for Saipem SpA and all the most significant business entities in the Group, guaranteeing a uniform and systematic approach in the management of the processes.



Safety

GRI 403-2
GRI 403-4
GRI 403-5
GRI 403-9

SASB
EM-SV-320A.1
EM-SV-320A.2



Every year Saipem defines a corporate, division and operational company safety objectives plan, approved respectively by the CEO, the Division Managers and the Managing Directors of the operational companies. The incentive plans for the senior managers for the areas under their responsibility are linked to the achievement of these objectives. Further details can be found in the "2020 Report on Saipem's Remuneration Policy and Paid Compensation".

For the year 2020, these goals include:

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

The Company carries out internal audits regarding HSE on: HSE management system, compliance with the HSE legislative provisions and audits on the processes regarding safety. These audits, 233 in

2019, involved operating companies, operational sites (including the fleet) and subcontractors.

Promoting the safety culture of workers is facilitated in the Company's sector by both the reference regulatory framework, characterised by laws and agreements at national and Company level, and by an internal environment characterised by specific policies on health and safety.

These internal policies set particularly stringent criteria compared to several local contexts, which today still have regulatory systems in the process of development. With regard to national agreements, not all countries in which Saipem operates have trade unions at both national and local level.

Where specific agreements are in place between trade unions and Saipem, they can include the following on safety:

- setting up workers H&S committees (composition and number);
- specific training for safety officers (responsible Company figures and employee representatives) and grassroots information on safety matters to all employees, with particular reference to courses on Health and Safety at Work, Fire Fighting courses, First Aid courses, mandatory "Special Operations" courses (Onshore-Offshore);
- regular meetings between the Company and workers' representatives.

In Italy, the national 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 by election, based on the provisions of law and the bargaining contract.

There are a total of 19 RLSAs at the Saipem Italian offices. A specific trade union agreement signed by Saipem and the Trade Union Organisations defines the duties of RLSAs and their full authority to carry out their activities also for workers assigned temporarily to activities at yards and sites other than those of origin.

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

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

The Company has launched several awareness campaigns over the years with the purpose of spreading a deeper and more entrenched safety culture.

To significantly reduce the alarming phenomenon of road accidents occurring on sites and in work areas or on the journey to and from work, in 2019 Saipem launched a new road safety campaign – *Belt Up or Get Out* – to guarantee that vehicle drivers and passengers have a safe journey every time.

Also in 2019, the Leadership in Health and Safety (LiHS) programme, aiming to promote the development of leadership skills and accelerate cultural change in safety issues, continued to be implemented globally. The programme, which reached its twelfth year of implementation in 2019, aims to spread safe behaviour, focusing on the development of leadership at all levels. During the years 2017 and 2018, special workshops were organised with the Top Management and the Business Divisions, to further reinforce the LiHS programme messages, create an opportunity for dialogue on leadership and safety issues and build the new Health & Safety Vision, the document that reflects the corporate values and long-term objectives to be achieved in terms of corporate Safety Culture.

The *Belt Up or Get Out* campaign underlines the fundamental principles Saipem stipulates in its Life Saving Rules, which are an integral part of the conduct and procedures to be adopted daily to work in safety.

The campaign focused on the importance of following three fundamental road safety measures: do not use mobile phones while driving, comply with speed limits and, above all, always use seat belts on any vehicle.

A video and posters with high emotional impact were the main instruments used in the communication campaign, clearly showing the dramatic consequences of conduct that goes against these simple and fundamental life-saving rules.

Saipem celebrates the World Day for Safety and Health at Work (April 28) with the competition *Sharing Love for Health & Safety*, an opportunity for all the people in the Company to share creative messages on prevention, health and safety, using non-conventional communication trends and languages.

The competition, now in its eighth edition, has always recorded extraordinary participation: in total, 354 projects have directly or indirectly involved over 10,000 people.

Each year the competition covers a different topic. The 2019 edition supported the *Belt Up or Get Out* campaign, aiming to generate creative material able to influence safe driving behaviour, particularly concerning the use of seat belts. 29 projects were submitted (videos, spots, posters, images and stories) from 14 different countries, showing an authentic passion for the value of Safety.

The LHS Foundation (Leadership in Health & Safety) was established in 2010 to offer a highly innovative path of cultural change, including training activities, communication campaigns and cultural initiatives throughout Italy, fostering the direct participation of people and leading to the development of a new health and safety culture.

In 2019, the LHS Foundation implemented two large projects:

- "Italia Loves Sicurezza", a social experiment which, since 2015, has been bringing together hundreds

of Safety ambassadors, including businessmen, professionals, trainers, educators, students and citizens who believe in the need to revolutionise the way of implementing safety. Since 2015, the ambassadors have run over 1,700 free safety-related events all over Italy, involving around one million people;

- "Young Leaders in Safety", a varied educational programme differentiated by age groups, which through educational workshops, theatre performances, readings, first aid courses and guided showings of LiHS films, helps to reflect on the values of health and safety, encouraging positive and aware behaviour. Since 2011, the project, initially designed for the children of Saipem employees, has involved over ten thousand children.

During the year, Saipem continued to invest significant resources in training its staff on HSE issues through campaigns and ad hoc programmes, in order to increase workers' awareness of the risks associated with work activities.

In 2019, safety performance worsened, recording a TRIFR of 0.54 (compared to 0.44 in 2018). It is appropriate to note that this increase is related to a significant reduction in man-hours (completion of important projects including Jazan, Aegean Refinery and Kaombo) and to a single event involving 14 people in Azerbaijan. The result is in fact in line with the 2017 result (0.51) and an improvement on that of 2016 (0.78).

In 2019, unfortunately 3 fatal accidents occurred involving Saipem staff in Chile, Azerbaijan and Saudi Arabia, respectively during the laying of a pipeline, during work on a pressure equipment and following a fire on board a vessel. In-depth investigations have been carried out to identify the causes of these accidents and appropriate actions have been implemented in order to minimise the possibility of recurrence.

The most serious of the three fatal accidents occurring in 2019 was on May 8, in Azerbaijan, at the Shah Deniz II site, on board the pipe-laying vessel Israfil Huseynov managed by Saipem. The accident involved fourteen Saipem employees. During the pipe laying operations, flames erupted from a pipe coating machine, hitting the people working on it; the fourteen injured people (Italian, British, Azeri, Romanian, Malaysian and Croatian citizens) were taken to hospital immediately, seven in intensive care with severe burns. Those suffering from less serious injuries were immediately repatriated, and the other injured people were transferred to specialist medical centres across Europe.

Unfortunately, after being transferred to a hospital in France, one of the injured employees died.

In parallel to the immediate activation of the rescue services, an internal investigation was performed, also involving the client, in order to identify the causes of the event, learn lessons and ensure that these accidents cannot happen again.

The direct cause of the accident was identified in the loss of propylene temperature control (overheating) during extraordinary repairs of the pipe coating

**SAFETY INDICATORS:
DEFINITIONS AND
CALCULATION METHODS**
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. LTI include fatal accidents, permanent total disability, permanent partial disability and temporary total disability.

WRC (Work Restricted Case): any

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

TRI (Total Recordable

Incidents): the sum of LTI, WRC and medical treatment cases: TRI = LTI+WRC+MTC.

TRIFR (Total Recordable

Incident Frequency Rate): calculated as (No. of TRI per hours worked) x 1,000,000.

FTLFR - (Fatal Accident

Frequency Rate): calculated as (No. of fatal accidents per hours worked) x 1,000,000,000.

LTIFR - (Lost Time Injury

Frequency Rate): calculated as (No. of LTI per hours worked) x 1,000,000.

Lost days of work: the total

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

SR (Severity Rate): calculated

as (No. of lost days of work per hours worked) x 1,000.

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

Accidents at work with serious consequences: accident at work leading to injuries that the worker cannot recover from, does not recover from or for which it is not realistic to expect him/her to recover from, returning to the state of health prior to the accident within 6 months.

High-consequence work-related

injuries Frequency Rate: calculated as (no. of High-consequence work-related injuries per hours worked) x 1,000,000.

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

		2017		2018		2019	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Man-hours worked							
Total, of which:	(millions of hours)	281.9	220.8	272.5	268.4	235.0	228.2
Man-hours employees	(millions of hours)			93.3	89.9	87.6	82.3
Man-hours subcontractors	(millions of hours)			179.1	178.5	147.4	145.9
Lost Time Injuries (LTI)							
Total, of which:	(No.)	40 (*)	37 (*)	36	36	51	47
Employees	(No.)			17	17	42	38
Subcontractors	(No.)			19	19	9	9
Of which fatal accidents:	(No.)						
Total, of which:	(No.)	3	3	4	4	3	3
Employees	(No.)			-	-	3	3
Subcontractors	(No.)			4	4	-	-
High-consequence work-related injuries							
Total, of which:	(No.)			1	1	14	14
Employees	(No.)			1	1	13	13
Subcontractors	(No.)			-	-	1	1
Days lost							
Total, of which:	(No.)	1,857	1,380	1,280	1,280	4,363	4,073
Employees	(No.)			572	572	3,804	3,514
Subcontractors	(No.)			708	708	559	559
Severity Rate							
Total, of which:	(ratio)	0.01	0.01	0.005	0.005	0.019	0.018
Employees	(ratio)			0.006	0.006	0.043	0.043
Subcontractors	(ratio)			0.004	0.004	0.004	0.004
Total Recordable Incidents (TRI)							
Total, of which:	(No.)	144	113	120	118	127	123
Employees	(No.)			57	55	83	79
Subcontractors	(No.)			63	63	44	44
Employee absenteeism rate (**)	(%)	4.1	4.7	4.0	3.9	3.10	3.27
Fatal Accident Frequency Rate (FTLFR)							
Total, of which:	(ratio)	1.06	1.36	1.47	1.49	1.28	1.31
Employees	(ratio)			-	-	3.43	3.65
Subcontractors	(ratio)			2.23	2.24	-	-
LTI Frequency Rate (LTIFR)							
Total, of which:	(ratio)	0.14	0.17	0.13	0.13	0.22	0.21
Employees	(ratio)			0.18	0.19	0.48	0.46
Subcontractors	(ratio)			0.11	0.11	0.06	0.06
High-consequence work-related injuries Frequency Rate (HCWRFR)							
Total, of which:	(ratio)			0.004	0.004	0.060	0.061
Employees	(ratio)			0.011	0.011	0.148	0.158
Subcontractors	(ratio)			-	-	0.007	0.007
Total Recordable Incident Frequency Rate (TRIFR)							
Total, of which:	(ratio)	0.51	0.51	0.44	0.44	0.54	0.54
Employees	(ratio)			0.61	0.61	0.95	0.96
Subcontractors	(ratio)			0.35	0.35	0.30	0.30

(*) It should be noted that since 2018, after updating the reporting methodology, fatal accidents have been included in the representation of LTIs. The data for 2017 were also recalculated according to the new methodology.

(**) The consolidated group absenteeism rate includes all the companies in the Group with the exclusion of Saipem Australia Ltd, Saipem East Africa Ltd, Saipem Ingegneria y Construcciones SLU, Saipem Misr for Petroleum Services (S.A.E.). The Group boundary includes not only all the companies in the above-described consolidated group but also Petromar Lda and TSGI Mühendislik İnşaat Ltd Şirketi.

machine. The investigation highlighted several factors that had not worked properly, including the work control chain and the organisational interfaces. The investigation also highlighted how some preventive safety measures, which had been correctly defined and implemented, reduced the extent of this tragic event: the air medical service operations for evacuation were delayed by the fog present at the time of the accident, and only the nearby operations of the stand-by vessel, set up with a medical clinic and medical staff on board, guaranteed both the prompt rescue of all the victims, doubling the assistance capacities and drastically reducing the time required to hospitalise the injured.

Several necessary corrective actions were identified by Saipem for implementation on board the vessels and at project/company level, aiming mainly to strengthen the safety criteria and parameters linked to the operation and ease of maintenance of the machinery, and to make improvements in the delivery of "tailor made" equipment from the engineering department to the asset department – the end user – and therefore between Saipem and the producers. The Project Control of Work procedures were revised, also involving the end users in the revision process, to identify any redundancies and shortcomings and to guarantee easier use by the operators. The concepts linked to the "Stop the job" mandate were strengthened, enhancing the sense of responsibility and involvement in the company processes of both crews and vessel management teams.

The incident during the pipeline laying activities occurred in Chile, on March 24, 2019, involving a Saipem employee during the pipe alignment operations in the trench: the person was hit in the head by a pipe section which was suddenly freed from the external coupling clamp, releasing the stored energy due to the force on the pipe to align it with the other pipe section. The injured man was knocked unconscious and the people working nearby called the alarm and the ambulance parked nearby, ready to intervene in the event of an emergency. The paramedics intervened immediately and took him to the nearest hospital, but during a subsequent transfer to a specialist hospital, the man died.

An in-depth investigation highlighted several causes of the accident, to ensure that the appropriate corrective actions were identified for each one. The most significant aspects emerging are: the risk of the sudden release of energy was known but not completely understood. Having established an action plan, this should formally be reflected in the supporting documents for the work permit, and any deviation must be documented in the change management system. Greater attention must be paid to the identification and sharing of all potential sources of uncontrolled energy releases.

The assessment of supervisor skills is the key to

avoiding these accidents, and must also include managerial skills. It is important to improve the awareness of supervisors over their role, responsibilities and legal obligations.

The last fatal accident in 2019 occurred on June 5 in Saudi Arabia during maintenance operations on the BoP (Blow out Preventer). Using a manual pump to open the BoP components, some operators noticed an oil leak. The injured worker (of Tunisian origin) was attempting to tighten the cap (used to prevent dust from entering the hydraulic system) with a wrench. During the operation, the cap broke and the pressurised fluid hit the operator in the face, causing a serious head injury. The site doctor was called immediately and assisted the victim while the evacuation procedures were activated, and the injured man was taken to the nearest hospital, where unfortunately he was declared dead on arrival. The details of the accident were discussed with all the site operators, during several safety meetings organised to discuss the causes and relative corrective actions. An in-depth investigation highlighted several causes of the accident. In particular the procedure for the operation in which the tragic event occurred was revised, considering the requirements of the producer. The new procedure was then notified to all workers in a training session. The "stop work authority" communication campaign was also strengthened, raising awareness on the need for all workers to stop any activities or operations deemed hazardous or potentially out of control.

Asset integrity

Saipem strongly pursues the effective implementation of its asset integrity management system as an outcome of good design, construction and operating practices adopting the integrated management of barriers to reduce the risks associated with Major Accident Events (MAE). Asset integrity refers to the prevention and control of the events with very low frequency and high/severe consequences on people, the environment, assets or project performance. A dedicated team has been set up to develop an asset integrity management system model in line with the best industrial practices.

The asset integrity model follows a typical Deming cycle: planning, operations, performance monitoring and continuous improvement.

Saipem undertakes to prevent risks to improve the integrity of its operations. For this purpose, it adopts a proactive approach in the mitigation of risks as an integral part of its management and business activities.

More information is available in the "Keeping people and operations safe and sound" chapter of the "Making change possible - Sustainability Report 2019".



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GRI 403-10



Employee health

As described in the Policy “Integrity in our operations”, Saipem considers the safeguard of health and the promotion of the physical and mental well-being of its people as a fundamental requirement.

This is essential in the modus operandi of Saipem which is committed to being leader in the safeguard of health, as well as safety and the environment (further details can be found in the HSE Policy of Saipem SpA). The Company pursues this commitment in compliance with the provisions on the protection of privacy and the national and international laws on the safeguard of health and the prevention of diseases. Its implementation implies that the health promotion programme for each work site focuses mainly on preventive measures, and considers all the operations which may represent a risk for employee health when performed.

Activities implemented include, for example, an assessment of the health risks, check-ups for the issue of fitness certificates, vaccinations and chemoprophylaxis, health information, monitoring of the hygiene/sanitary conditions, programmes for the prevention of diseases and activities to promote health and physical activity.

The Company’s operating activities require the movement of a considerable number of people, even to remote locations. For this reason the Company ensures workers the best possible medical assistance wherever they work, organises regular specific medical examinations and prepares medical fitness certificates, as well as delivers training programmes to assigned personnel before undertaking any travel or being assigned abroad.

This is to prevent risks of contracting diseases due to the effect of the climate or environmental and other factors linked to the place of destination.

The Company is equipped with structured processes and a chain of well-defined responsibilities to promptly manage any medical emergency whatsoever.

Saipem has developed a continually evolving health management system, which is adapted to the work environments, integrates the most recent epidemiological studies and is designed to ensure the best health monitoring and medical services. This system observes the principles recognised at international level and by local laws: the WHO (World Health Organization) Beijing Declaration, “Global Strategy on Occupational Health for All” (1994), European legislation and Directive 2000/54/EC on the protection of workers from risks related to exposure to biological agents at work, its application in Italy through Legislative Decree No. 81/2008 and its amendments (the so-called “Consolidated Act on Occupational Health and Safety”). This approach ensures effectiveness, flexibility and adequate bases for the development of a long-term health culture in all the countries where the Company operates.

For each site/project/asset, the management system requires that the risks linked to the health of personnel are identified and assessed (taking into consideration the frequency and potential impact), after which suitable preventive and mitigation measures are identified and implemented.

These measures must be periodically monitored. The general principles for the safeguard of health are based on the analysis of the activities carried out in the work environment and take into consideration the risks that those activities pose for both the people involved in the operations in different capacities and the local community.

The analyses carried out are specific to each task and destination and involve the identification of the activities and operating conditions in relation to the normal, abnormal and emergency working conditions; the analysis of the potential routes of contact of risk agents and their combined action and an accurate association of the hazards to the task, in relation to the specific nature of the activities identified. The results of the analyses allow the personnel to be suitably equipped and appropriately monitored.

		2017		2018		2019	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Occupational diseases reported	(No.)	5	4	7	7	6	6



Occupational Health and Medicine

2019 saw the consolidation of ongoing activities and the planning of new projects aimed at protecting and maintaining the health of personnel. Sensitive to the opportunities offered by new digital technologies, the Company has worked to implement its Tele-medicine projects for remote areas, consolidating Tele-cardiology and above all implementing Tele-radiology activities in operational sites in Nigeria and at the Karimun yard in Indonesia. Also following the event that occurred in Azerbaijan and described in the “Safety” section, the Company has begun to consolidate the “Post-Traumatic

Stress Disorder” psychological support to staff involved in large-scale emergencies and has appointed a new MERP (Medical Expense Reimbursement Plan) and HRA (Health Reimbursement Arrangement) Manager. Activities also continued to finalise the project for the technological implementation of the “Si Viaggiare” app, the update of the “GIPSI” software for the protection of the processing of personal data of natural persons (in conformity with Regulation EU 2016/679 which entered into force on May 25, 2018) and the consolidation of the pre-travel information system on health and security risks in the place of destination, targeting all Saipem personnel destined

to work abroad.

By virtue of the fact that the health services are those most in demand by employees using the welfare systems, during the year some specific activities were implemented focusing on personal and corporate well-being, including:

- > through cooperation with the Humanitas Research Hospital, the launch of weekly internal newsletter informing employees on Science and Medicine topics of common interest;
- > start of the Posturology project, fostering wellbeing in the Company through the information booklet entitled "Healthy workplaces: a model for action";
- > as an integral part of the WHP (Workplace Health Promotion) programme, coordinated cooperation has been undertaken with INAIL (National Institute of Occupational Accident Insurance), ACI (Automobile Club of Italy) and the Region of Lombardy for the promotion of health and the prevention of road accidents, leading to the implementation of the "Safe Driving" project with the direct participation of employees.

Also for 2019, Saipem was awarded by the Region of Lombardy in the "Promoting Health in the Work Place" Project, as a "Place of Work that promotes health". Within the project, the Company reconfirmed its commitment, setting the "Fighting smoking" objective for 2020.

Considering the different geographical, environmental and health contexts the Company

operates in and the relative global and specific risks for its employees, to protect all its employees and persons working with the Company Saipem has adopted an approach to managing crises and situations in which health risk becomes a global emergency, such as those which have occurred in recent years (SARS - Severe Acute Respiratory Syndrome; MERS-CoV - Middle East Respiratory Syndrome Coronavirus; COVID-19 - Coronavirus Disease).

This approach involves the establishment of an internal Working Group of the Company's Occupational Health team, operating until the end of the emergency. The Working Group works in close contact with national and international institutions, including the WHO (World Health Organization), the IMO (International Maritime Organization), the CDC (Centre for Disease Control), the ECDC (European Centre for Disease Control), to monitor the developments of the disease. The Group involves both the Corporate functions and the Division Health Managers, as well as the employee services for the required information and logistics. The actions implemented include: the opening of a dedicated intranet page/channel; the drafting and issue of health statements; the drafting of "Criteria" (Biological Risk Matrix); the updating of the Country Health Risk Sheets and the adaptation of the 24H first aid phone line that the Company makes available to all employees, particularly when working abroad.



HUMAN CAPITAL

Human resource policies and management



As described in the Policy "Our People" on the management of human capital "people are the indispensable and fundamental element for the very existence of the business and the company objectives can only be achieved with their dedication and professionalism".

People's professional knowledge is fundamental for sustainable growth and an asset to be safeguarded, valorised and developed. The development of a culture oriented to sharing know-how is the main instrument for consolidating the wealth of knowledge and experience.



Workforce trend

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

The overall turnover rate in 2019 saw a reduction compared to 2018 and was 26% (for both perimeters); a value which, although decreasing, remains at a significant level due to:






- (a) the extremely dynamic situation in the Oil&Gas market, which led to a reduction in operating activities, following a significant contraction in investments in the sector;
- (b) the nature of Saipem's business which, being a contracting company, works for large projects that have variable durations (from a few months to years) in different geographical areas. Taking into account these peculiarities, the qualitative size of Saipem's human capital is therefore subject to a natural fluctuation connected with the different operating phases of projects and the cyclical nature of clients' investment.

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

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Risks associated with human resource management

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

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

Workforce trend

		2017		2018		2019	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Total employees at period end	(No.)	35,918	32,058	34,129	31,693	36,986	32,528
Employee categories							
Senior Managers	(No.)	398	393	385	380	400	384
Managers	(No.)	4,190	4,089	4,187	4,091	4,446	4,285
White Collars	(No.)	16,642	14,971	16,633	15,323	19,546	16,625
Blue Collars	(No.)	14,688	12,605	12,924	11,899	12,594	11,234
Type of contract							
Employees with full-time contracts	(No.)	35,686	31,826	33,906	31,470	36,814	32,357
Employees with key professional role	(No.)	14,177	13,154	14,123	13,468	(*)	(*)
Employees recruited through an employment agency	(No.)	5,829	4,111	7,380	6,869	5,564	4,873
Turnover							
Total turnover	(%)	35	36	31	27	26	26

The total turnover is calculated as the ratio between all the annual exits and the average resources in the year.

(*) The voluntary turnover of resources holding key professional roles is not reported for 2019 as the system of identification of key professional roles was revised and will be applied from 2020.

Development of skills

The enhancement and management of professional skills is a distinctive and characterising element for Saipem and constitutes a competitive advantage in

its reference market. Consistently with the HR strategy aimed at safeguarding and enhancing the distinctive skills – which focuses on the Saipem resource intended as the bearer of a set of critical business skills and extended experiences gained

GRI 404-2

over the course of a working life – a specific process was developed. Such process is the Strategic Workforce Planning, to support and integrate the consolidated HR Planning process, focused on the professional roles which are identified as “core” by the divisions and closely linked to the scenario forecasts developed as part of the Saipem Strategic Plan. The output of the model is used to monitor the effective need for human resources in these roles and measure the level of coverage in relation to the company skills required to manage the challenges laid down in the Plan and therefore decide on, and better plan, the most suitable actions to be undertaken for recruitment in the market and the development and training of internal resources. The adoption of a new skills planning model, which begins with an analysis of the qualitative and quantitative aspects associated with the resources with regards to the specific requests of the business, will allow a more effective capacity for planning and controlling the development of human capital and its distinctive professional skills.

In line with the broader process of digital transformation underway in the business segments in which Saipem operates, an IT&digital skills analysis and identification process has also been developed to ensure leaner and more effective working methods. Through the introduction of an evaluation process of these skills in the recruitment phase, it will therefore be possible, in relation to the critical professional figures required, to identify the candidates with the most well-developed knowledge and predisposition towards new technologies who will therefore be better equipped to support the transformation process.

In this context, the link between this model and the talent attraction and development strategies that will be oriented and linked to monitoring and analysis of the evolution of skills and the internal and external market is strengthened.

Supporting the development and growth of technical business skills, Saipem's commitment to the creation of specific training programmes in technical secondary schools is fundamental.

This commitment has been renewed over time, implementing the “Sinergia” Programme in selected schools, and received an additional impetus in 2019 through new partnerships with three schools in territorial areas deemed strategic for Saipem's business:

- the IPSIA and ITI secondary schools in Tortoli, developing skills useful in the Fabrication sector through over forty hours of classroom training and as many again of “training on the job” at the Arbatax yard;
- Saipem trainers worked at the Marconi school in Piacenza to develop skills useful in the Drilling sector, and ten of the best talents were selected from among the students to take part in the Tour Pusher programme in the Onshore and Offshore Drilling field.

At the end of the six-month full-time course, the resources will go directly to work abroad in some of the challenging contexts characterising the Saipem world. The aim is to immediately offer the

participants direct experience of onshore and offshore drilling sites, allowing them to familiarise with the typical processes, instruments and dynamics of this working context and become aware of Saipem's global reality.

As explained, the “Sinergia” Programme has been confirmed as a highly sustainable initiative: not only does it develop a pool of human resources with specific basic skills for the energy world but it also allows the Company to get to know and interact with the reference territory, supporting local communities.

Internationally, it is worth mentioning the Local Content plan for Mozambique which, through its partnerships with training institutes, including the Ifpelac and the universities Eduardo Mondlane in Maputo and Unilurio in Pemba, will foster the increase in employability of local resources through specific training programmes, the opening of a training centre and the development of forms of cooperation which will lead to close integration with the Mozambican fabric.

The centrality of and focus on skills development is also confirmed at university education level, through consolidated partnerships with top institutes including Milan Polytechnic and the Bocconi University in Italy, as well as the numerous agreements signed locally in the countries in which Saipem has been operating for years, including the Baku Engineering University in Azerbaijan, the National Autonomous University of Mexico and the Methodist University in Angola.

Attracting talents



The strategy for increasing the attraction, reward and growth of top students is expressed best in the new Millennials Road, which was recently inaugurated aiming to create a uniform path that exploits the interaction methods of the new generations.

This is implemented right from the selection process, which guarantees a rapid, compelling “candidate experience” for students, who can complete most of the selection process using their own devices, also allowing the Company to effectively assess the candidates' behavioural characteristics through an online “in-basket assessment” based on the Saipem Leadership Model and the digital mindset, as well as their language skills, using specific online tests.

The reward policies have also been made more competitive and closer to the specific needs of Millennials, including a system of non-monetary benefits in the welfare package which will be assigned through interactive contests focusing on their knowledge of the Saipem Leadership Model. In relation to in-Company growth, the Millennials will be able to take advantage of specific training packages that set the key objective of developing technical skills that are consistent with their role, and they will have access to a specific app through which they can receive continuous feedback and find out the points of view of the people they work with.

Furthermore, Saipem will offer the most brilliant resources an exclusive development path, "Talent 4 Saipem", which lasts four years, aiming to accelerate their growth path through the possibility to develop skills that are transversal to all the divisions.



GRI 403-5
GRI 404-1
GRI 404-3

Reverse Mentoring and training

Saipem's commitment to the development of skills not only enhances the new generations but also constantly fosters continuous growth of expert resources. Consistently with the aim of retaining the high-level, distinctive know-how of Senior resources and foster cross-generational learning, the Company has promoted the Reverse Mentoring methodology. A new knowledge transfer paradigm has been inaugurated, supporting the development of a mindset oriented to experimenting new forms of cooperation between Junior and Senior colleagues. The pilot phase involved resources from all divisions, identified through a pre-selection process that highlighted learning attitudes and the digital mindset. The pairs identified worked together, with a view to continuous exchange, through periodic, structured meetings aiming to disseminate knowledge and understand emerging trends.

Within the declared objectives of the Saipem People Strategy, in-house training is of strategic importance for enhancing and strengthening the skills of our people. In this sense, the fundamental role of transversal training activities carried out in international training centres has been confirmed. These include the Schiedam centre for technical and HSE skills and the Ploiesti centre for welding activities. With reference to HSE skills, in 2019 the Company's commitment to updating and delivering training courses to all its people continued, based on their professional roles and responsibilities, as indicated in the HSE training matrix.

In Italy, training courses were promoted among specific company populations; these included various initiatives organised at division level, including "Logistic Management" and "PM Takeaways", promoted by the Onshore E&C Division aiming to strengthen respectively skills linked to supply chain management and the management of project processes, or the "Intercultural Project Management and client relationship" project developed by the XSIGHT Division, focusing on the development of international project management skills. The HR Academy initiative is of inter-division scope and interest; linked in any case to training a given professional family, this modular training package targets the HR population of all the divisions.

During the year, technical training initiatives were also implemented for engineers, relating to Green Technology, Hi-tech Floaters, Upstream & LNG, Syngas & Fertilizer, Petrochemical Refinery. During the year, the focus on Saipem Manager training was confirmed through the continuing "Communication skills - Be a Leader" activity, aiming to support managerial resources in their people development and management responsibilities. In addition to this initiative, new training courses have

been launched, including the "Leadership Path", a Master's in General Management for Saipem Managing Directors and Senior Managers, run in cooperation with MIP - Milan Polytechnic, and "Leadership Build Up", for recently appointed managers, aiming to strengthen their transversal managerial skills in relation to the different company functions and business areas.

2019 also saw Saipem's strong commitment to developing and delivering new e-learning and blended solutions, characterised by increasing levels of interactivity and gamification. These innovative ways of using the contents are an instrument that can convey learning contents effectively with the active interaction of the students. The efforts in this sense resulted in a net increase in the hours of use of learning contents in this way, in fact the annual figures have more than doubled.

In 2019, the total number of hours of training recorded an increase of 16% on the previous year, due mainly to the hours of HSE training and particularly the share delivered to subcontractors, which amounts to 1,432,007 hours.

In quantitative terms, the HSE area continues to represent the most significant training organised during the year, confirming the aims of Saipem, which has always considered the safety of its people to be a fundamental and indispensable value.

An average of 23.4 hours of HSE training were delivered to each employee over 2019 (20.7 if one considers the total Group perimeter), an improvement of 26% in 2018.

During the year Saipem delivered 1,828,012 hours of training on health and safety topics alone (1,834,541 for the Group perimeter), of which 636,935 hours to employees (643,360 for the Group perimeter) and 1,191,076 to subcontractors (1,834,541 for the Group perimeter).

On average, every employee attended 29.6 hours of training courses (26.4 at Group level), an increase on the 25.4 (24.1 at Group level) provided in 2018. Specifically, each male employee took part on average in 31.1 hours of training (27.3 at Group level) and each female employee took part on average in 18.4 hours of training (18.9 at Group level).

There continues to be a very positive trend in relation to managerial training delivered in 2019; in fact, this increased by 78% compared to 2018 following an increase in the managerial and institutional training offered mainly for the benefit of the employees of Saipem SpA's Italian offices. With regard to the data relating to the hours of training attended by employees divided by each professional category, it should be noted that, currently, it is possible to collect only a partial data, as the reporting system of HSE training does not provide for such a division of the training catalog offered in its entirety; with the available data for this subdivision (i.e. training on managerial skills, technical-professional training and part of the HSE training, or that provided at the Saipem SpA headquarters and that used by employees of the XSIGHT Division), it is possible to proceed to an estimate of the calculation of the

average hour for each professional category, based on the trend, during the year, of the employees' training attendance divided into categories, projecting that data on the entire training offer. The estimate calculated for 2019 shows that, on average, Senior Managers attended 18.4 hours of training (17.7 for the Group perimeter), Managers 20.1 hours (19.6 for the Group perimeter), the White Collars 26.7 (23 hours for the Group perimeter), and finally the Blue Collars 37.9 hours (34.3 for the Group perimeter).

In 2019, there was a 41% growth in the population monitored through performance assessment tools compared to 2018 for the Group perimeter. This improvement is attributable to a greater familiarisation with the system that supports the management of the recently modified evaluation process. In particular, there is an increase in the coverage of the tool in the population of employees classified as white collars and blue collars.

Out of 32,528 employees (36,986 for the Group perimeter), 18,518 (19,111 for the Group perimeter) were subject to performance assessment, and specifically 60% of women (58% for the Group perimeter) and 57% of men (51% for the Group perimeter). 97% of Senior Managers (93% for the Group perimeter), 72% of Managers (68% for the Group perimeter), 59% of White Collars (53% for the Group perimeter) and 46% of Blue Collars (42% for the Group perimeter) were subject to performance assessment.

Performance evaluation is an essential management and development tool of human resources: it constitutes, in fact, the vehicle for communicating company priorities and objectives, the guide for the orientation of activities and the continuous

improvement of results and managerial and professional skills. It is aimed at evaluating the contribution provided and the results achieved by people during the year. The performance objectives are balanced with respect to the role covered and the responsibilities assigned and foresee targets with realistic levels of challenge. Methods, criteria and methodology of the employees' evaluation process are governed by the competent HR Corporate function and process management is guaranteed through the use of the company information system, People+, which ensures the historicisation and traceability of data, through appropriate levels of segregation of information.

Motivational talks are another tool among the ones implemented by the Company's HR function and oriented towards the development of human resources; they are carried out by the HR functions of the divisions and are aimed at investigating aspects of the current work with a look at the past experiences. The interviews are focused on the degree of satisfaction and motivation of the person, on the current workload, on how past experiences have been useful to fill the current role, on what critical issues have been encountered and what activities or aspects of the current work are considered more positive and pleasant. The motivational interview takes place following the preparation, by the employee, of a questionnaire through company information system called People+.

The interview represents an important moment of exchange and comparison, aimed at probing the expectations that the person has towards the future, analysing the work ambitions of the person and if there is an interest in a inter-functional or international experience.

		2017		2018		2019	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Training							
Total hours of training, of which:	(hours)	1,930,709	1,908,702	2,086,681	2,059,822	2,407,786	2,395,487
- HSE (employees and subcontractors)	(hours)	1,699,674	1,677,713	1,867,401	1,840,555	2,199,115	2,192,036
- managerial potential and skills	(hours)	15,090	15,090	27,934	27,934	49,698	49,052
- professional technical skills (*)	(hours)	215,945	215,899	191,347	191,333	158,973	154,399
Performance assessment							
Employees subject to performance assessment	(No.)	9,844	-	13,568	13,130	19,111	18,518
Senior Managers	(No.)	359	-	372	372	372	371
Managers	(No.)	2,918	-	2,452	2,452	3,006	3,093
White Collars	(No.)	5,781	-	7,211	6,785	10,403	9,849
Blue Collars	(No.)	786	-	3,533	3,521	5,330	5,205
Percentage of employees subject to performance assessment out of the total	(%)	27	-	40	41	52	57

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

Industrial relations

The global context in which Saipem operates, characterised by the management of diversity means that the management of industrial relations requires the utmost care and attention.

For several years (in accordance with the Company's policies) Saipem has consolidated an industrial relations model aimed at ensuring the harmonisation and optimal management of relations with trade unions (OO.SS.), employers' associations, institutions and public bodies in line with company policies.

With reference to the commitment to strengthen dialogue with company stakeholders, through a permanent information and consultation mechanism, the second meeting of the Saipem Group European Works Council (EWC) was held in June in Saint Quentin en Yvelines in France which involved Company Management and a delegation of 22 representatives of the workers employed by Group entities operating in Europe, in addition to the national and general representatives of the Italian trade unions. The meeting represented a further consolidation of the body introduced by the European law, leading to a significant opportunity for debate and discussion between the Company and workers' representatives, which is fully representative of the "participatory" model of industrial relations to which Saipem adheres. In terms of international industrial relations, in 2019 collective agreements were renewed in Peru for the personnel employed in onshore drilling, in Nigeria for Onshore E&C personnel, in Indonesia for Offshore E&C personnel and in Mexico for Offshore Drilling and E&C personnel. Finally, in France, Saipem SA signed two agreements with trade unions relating respectively to the experimental introduction of the telework pilot project and for the recognition of an exceptional bonus, the so-called "Prime Macron", in conformity with the provisions of the laws in force.

As regards industrial relations in Italy, in September an understanding was reached for the renewal of the Energy and Oil National Collective Labour Agreement (CCNL), valid for the three-year period 2019-2021. Among the innovations, the first worth reporting is the introduction of a new assessment system for individual professional contribution, aiming to make the assessment process simpler and more closely linked to objective factors of work performance. To ensure greater alignment with the new assessment system, the contractual clauses relating to the classification system were reviewed, also to more clearly highlight the importance of the

current digital and technological changes. Finally, in the welfare field, the collective labour agreement has introduced a new method of granting personal holiday allowances for solidarity purposes, as well as new methods of payments to complementary pension schemes, aiming to incentivise the greater participation of younger workers.

At company level, the relationship with trade unions has remained constant and constructive, both with the National Secretariats and with the RSUs of the various offices. Within the participatory industrial relations model Saipem adheres to, it should be highlighted that progress has been made in the debate with trade unions for the signature of an Industrial Relations Protocol, aiming to define clear, precise and common objectives and peculiarities of healthy interaction between the Company and the trade unions. As regards the agreements, the agreement relating to the 2018 Production Bonus was signed; in line with the good results achieved by the Company last year, this has established higher payments compared to previous years.

Of more than 28,000 employees (more than 31,000, if we consider the Group total) monitored (the total includes full-time Italian employees, French employees irrespective of the country they work in and local employees for all the other countries), 12,508 (13,096 at Group level) are covered by collective bargaining agreements. The downward trend for the Group total can be attributed to the fact that a growing proportion of Saipem personnel work in countries where these types of agreements are not provided for. At the same time, there has been a reduction of personnel in areas where these types of agreements are widespread (Indonesia, Kazakhstan and Nigeria).

In 2019, collective strikes were recorded for a total of 15,561 hours. Strikes were held in Nigeria (where 97% of strike hours were recorded), in Italy and Argentina.

		2017		2018		2019	
		Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Employees covered by collective bargaining contracts	(%)	49	62	47	46	42	42
Strike hours	(No.)	1,143	1,143	23,699	23,699	15,561	15,561



GRI 401-2
GRI 401-3
GRI 405-1
GRI 405-2



Equal treatment and enhancement of differences

Saipem is committed to creating a work environment where different characteristics or personal or cultural orientations are considered a resource and a source of mutual enrichment, as well as being an inalienable element of business sustainability.

This commitment is a founding point of the Policy "Our People".

As defined in the Code of Ethics, in full compliance with applicable legal and contractual provisions, Saipem undertakes to offer equal opportunities to all its employees, making sure that each of them

receives a fair statutory and wage treatment exclusively based on merit and expertise, without discrimination of any kind.

The functions responsible for managing people must:

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

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

Saipem is also committed to promoting programmes to guarantee generational turnover, aiming to ensure business continuity, ensure critical skills and promote change. These initiatives on one hand provide development opportunities for young people and, on the other, enhance the senior resources and their know-how.

Generational turnover will be achieved in Saipem by supporting the motivation of the most expert resources to foster tutoring and the transfer of knowledge, as well as creating the organisational and managerial conditions to allow young people to obtain full empowerment.

Saipem guarantees its employees, based on the specific local circumstances, different types and modes of benefits that include supplementary pension funds, additional health funds, mobility support services and policies, initiatives in the field of welfare and family support policies, catering and training courses aimed at ensuring more effective integration within the socio-cultural context of reference. These benefits, when envisaged and based on the country/society/local legislation in force, today are applied to the whole specific reference population regardless of the type of contract (temporary/permanent), except for those particular services where the time scale of

performance delivery may not be compatible with the duration of the contract.

The protection of specific groups of employees is safeguarded through the application of local laws, and is reinforced by specific corporate policies that emphasise the importance of this issue. The goal is to ensure equal opportunities for all types of worker in an effort to deter the onset of prejudice, harassment and discrimination of any kind (e.g. related to sexual orientation, colour, nationality, ethnicity, culture, religion, age and disability) in full respect of human rights. Saipem also guarantees recruitment of disabled persons and young resources and the respect for given proportions of local and expatriate personnel.

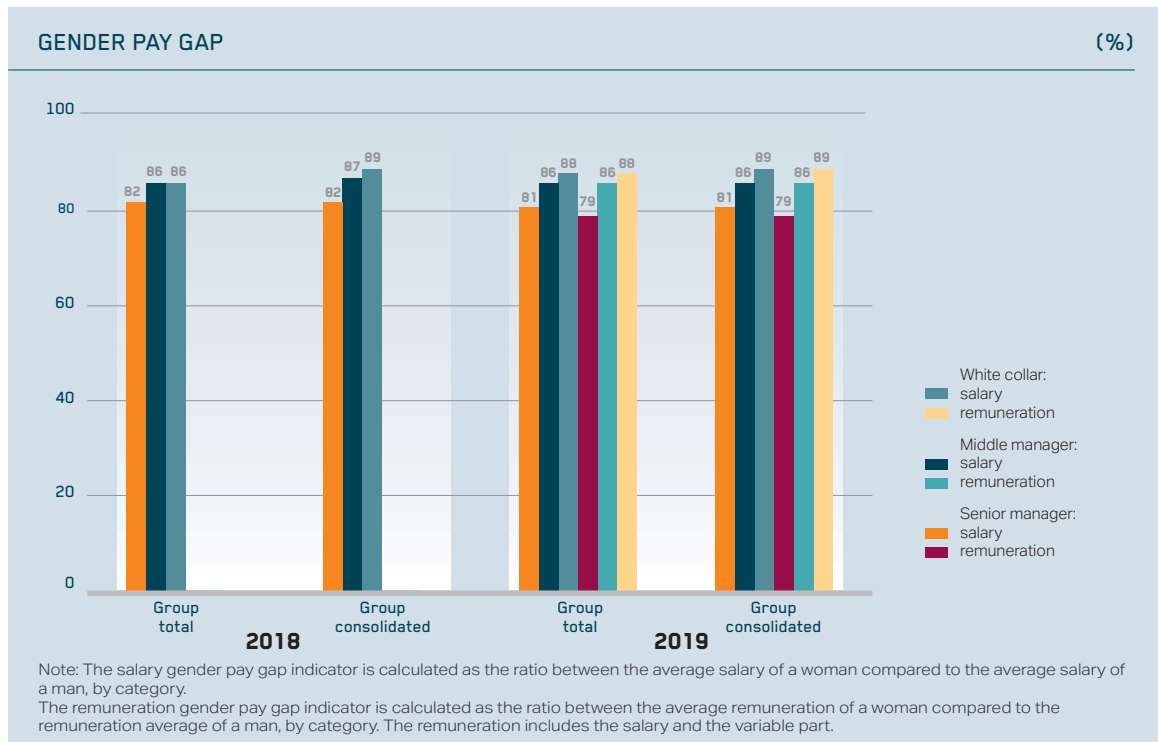
As regards gender, women represent 11% of the work force (10% at Group level). Regarding age distribution, 14% of employees are less than 30 years old (13% for the Group perimeter), 71% are between 30 and 50 (72% for the Group perimeter) and 16% are over 50 (15% for the Group perimeter). The percentage of women holding managerial positions compared to the total number of women is 19% (in relation to the consolidated perimeter), in line with 2018. Saipem is equipped with precise guidelines to standardise compensation policies and reduce the pay gap between men and women in all the local bases where it operates. The Company defines the compensation policy guidelines annually. In particular, Saipem constantly strives to affirm the "equal pay for equal work" principle and reduce the pay gap between men and women, in all operating situations, even if, on a global level, the result of the gender pay gap indicator is also influenced by the



(No.)	2017		2018		2019	
	Group total	Group consolidated	Group total	Group consolidated	Group total	Group consolidated
Female presence						
Female employment, by geographical area:	3,790	3,560	3,644	3,458	3,874	3,674
Americas	348	348	350	350	357	357
CIS	461	442	420	419	375	363
Europe	2,101	1,983	1,998	1,902	2,085	2,026
Middle East	120	115	154	152	227	224
North Africa	33	33	35	35	33	33
Sub-Saharan Africa	312	224	307	220	346	210
Far East	415	415	380	380	451	451
Female leadership						
Female Senior Managers	23	23	23	23	26	25
Female Managers	612	606	643	633	689	670
Age ranges						
Employees under 30 years	4,330	3,724	3,740	3,526	4,757	4,430
of which women	494	427	439	399	657	624
Employees aged between 30 and 50	25,673	22,919	24,295	22,467	26,762	22,981
of which women	2,744	2,601	2,646	2,522	2,710	2,565
Employees over 50 years	5,915	5,415	6,094	5,700	5,467	5,117
of which women	552	532	559	537	507	485
Multiculturalism						
Number of nationalities represented in the employee population	115	115	123	122	127	124

specific manpower dynamics of the year. For the Senior Manager category, the indicator reaches 81% (for both the consolidated and Group perimeter); as regards Middle Managers, the 2019 indicator is 86% (for both the consolidated and Group perimeter); and as regards White Collar workers, the value is 89% (88% for the Group perimeter). The Blue Collar category experienced a significant positive variation, motivated also by the fact that the female population in this category (59 Blue Collar women for the full perimeter and 85 for the Group) is mainly employed in countries with higher wages than average. Saipem supports the work/family balance of its personnel through Company regulations and/or local policies which guarantee parental leave. The differences among countries for this leave lie only in the time and method of abstaining from work.

One should highlight the growth in the average number of days of leave taken, even if there was an overall reduction in the number of beneficiaries. In 2019, Saipem had 608 employees (623 if we refer to the Group total perimeter), 274 men (285 considering the Group total perimeter) and 334 women (338 considering the Group total perimeter), who made use of parental leave for a total of 44,469 days (44,910 referring to the Group total perimeter); at the same time, one should note the return to work from parental leave of 534 employees (548 at Group level) in the same period, 282 men (293 at Group total level) and 252 women (255 at Group total level), with a return rate from parental leave of 88% (88% also at Group total level), a decrease against the previous year.



Innovation in people management

The Human Resources function promotes initiatives aimed at the dematerialisation and digitalisation of processes. During 2019, in order to pursue HR Digital transformation objectives, an inter-departmental project team was set up to define a long-term work plan aimed at overall improvement of the digital journey of an employee. In this sense, the HR function aims to drive digital transformation, accompanying employees in their physical and digital journey, through the integrated management of systems and processes that effectively respond to business needs. In 2019, within the digitalisation programme a series of initiatives were implemented aiming to completely review and rationalise the personnel administration services management model. Next year these initiatives will translate into the adoption of a single global payroll provider, for the benefit of smoother and faster use of data for reporting and

consolidation activities. In Italy, the review of the Human Resources processes will lead to changes in the attendance, travel and internal reporting management systems. Supporting the digital transformation in progress, Saipem has chosen to work on the development of training initiatives on new digital applications; in this sense, in 2019 a series of projects began, which will also continue in 2020, including the IT digital corner, Saipem Social Club and the Office 365 training course. Other digital initiatives developed in 2019 include the launch of an Instant Feedback App which, keeping a constant focus on the behavioural skills of the Saipem Leadership Model, will allow the pro-active and contextual exchange of feedback between colleagues. The objectives include the further development of the feedback culture in the Company using a tool designed to facilitate its dissemination and effectiveness.



SASB
EM-SV-510A.1
EM-SV-510A.2
EM-SV-530A.1

GRI 407-1
GRI 408-1
GRI 409-1



BUSINESS ETHICS

Human rights

Saipem is committed to protecting and promoting human and labour rights when conducting its business, taking into consideration both the work standards recognised at international level and the local legislation in the countries where Group companies operate. This commitment is part of Saipem's modus operandi and is also made clear in the Policy "Our People".

With reference to the management of relations with personnel worldwide, Saipem adheres to the principles of the UN Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises. Furthermore, the Chief Executive Officer of Saipem has formally committed to promoting and respecting the principles set out in the United Nations Global Compact, to which Saipem adheres, including principles 1, 2, 3, 4, 5 and 6 (regarding the rights of workers and the promotion of socio-economic development of the territories). In protecting and promoting the rights of workers, due attention is paid to the conventions of the International Labour Organisation (ILO) which concern the protection against forced labour and child labour, the fight against discrimination in employment and the workplace, freedom of association and collective bargaining. Especially with reference to the latter, Saipem has a sound record of relations with trade union organisations in a variety of countries and covering several segments of its business. Further details can be found in the "Industrial relations" section hereto. Saipem promotes and encourages a constant open dialogue between employer and employees so that the interests of the parties can be best realised, also in consideration of the fact that a regular and

effective communication flow between the two parties appreciably reduces the probability of misunderstandings and conflict arising at the workplace.


Therefore, Saipem takes steps to ensure that there is a widespread and shared system between all the workers in Italy and around the world which permits an easy and effective resolution of any conflicts linked to issues that have implications of an administrative nature.

It is for this purpose that a procedural tool has been drawn up. It defines the methods for resolving conflicts, the schedules, the people involved in the process and knowledge of the outcomes for the workers.

Saipem's attention to labour rights extends also to offshore personnel with full abidance to the principles and the rights recognised to Seafarers promoted under the ILO Maritime Labour Convention of 2006 (MLC 2006). Seafarers also have the right to submit a grievance according to a structured process if a violation of their rights arises. To ensure each of them is aware of their rights, all people working on offshore vessels receive a copy of the related procedure and all the forms necessary for the complaint, together with a copy of their employment agreement. The captain and/or the Company examines any complaint, and any instance of harassment is managed in compliance with the Company's disciplinary procedures.

Finally, based on the commitments undertaken by the Group as a member of the Global Compact, since 2017 Saipem has implemented a human rights training and awareness raising plan targeting Human Resources personnel and the managers of companies and branches working abroad, as well as subcontractors, seeking a common and more effective approach to the promotion and respect for human rights.

RISKS COVERED BY ITALIAN LEGISLATIVE DECREE NO. 254/2016: HUMAN RIGHTS

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



GRI 410-1
GRI 412-3

Security practices

In the management of security, Saipem gives utmost importance to respecting human rights. Saipem is committed to adopting preventive measures aimed at minimising the need for response by public/private security forces in the case of any threats to the safety of its people and the integrity of its assets.

The Company manages relations with local security

forces in order to ensure a shared commitment to human rights, as well as the adoption of rules of engagement that limit the use of force.

Before signing a contract, providers of security goods and services are subjected to a due diligence to verify that there are no counter-indications connected with the violation of human rights. Saipem has introduced clauses regarding the respect for human rights in its contracts with these companies since 2010, and failure to observe them

leads to the withdrawal of the Company from the contract².

For 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 it decides to go ahead with issuing a call for bids, Saipem prepares the Project Security Execution Plan in which the security risk connected with the operating activities and the context is analysed, including human rights violation issues. On the basis of the risks identified, the actions needed both to manage and reduce these to a minimum are decided upon.

Therefore, potential breaches of human rights are in fact assessed in all the Company's operations using country risk sheets, in which the risk is assessed using specific quantitative and qualitative indicators. Additionally, the security risk factors of the operating environment are the subject of specific assessment by the Employer (Responsible for compliance on health and safety) in Saipem SpA and in the subsidiaries. The level of exposure to these risks depends on hygienic-environmental, socio-political and cultural factors, as well as on factors connected to the phenomena of criminality and terrorism, in a variable percentage depending on the country in which one operates. The document for the Assessment of Security Risks (VRS) is the document that identifies the security risks pertaining to each organisational structure/permanent site of an operating company or subsidiary and which defines the main mitigation actions to be undertaken.

The census of all operating sites both onshore and offshore (GST) and Saipem employees (and contractors) present on the various operating sites/management offices, both onshore (POS) and offshore (POB), is constantly updated. As security risk prevention measures, the Company adopts specific measures such as:

- implementation of reception procedures in the country of destination (Meet & Greet);
- provision of local "security induction" on arrival at the destination of the expatriate personnel, with indications of local threats, conduct to be followed and precautions to be taken daily in the specific work site/country;
- assignment of a security escort, with use of armoured vehicles, where necessary, according to local security conditions.

The implementation of security plans and the provision of evacuation plans are tools used at all Company operational sites/offices. The synergy of different company functions also allows them to implement Local Crisis Units for the management of emergencies and crises.

The corporate functions also work in operational coordination with Embassies, Consulates, the Ministry of Foreign Affairs (MAE) - Crisis Unit, Client and Third Party Security (JV).

Consistently with and in compliance with Italian Legislative Decree No. 81/2008 "Consolidated Act on Occupational Safety" the Group Health and Security functions have also implemented the IT Time Management System (TMS) for managing missions right from the moment of booking/authorisation, and for tracking personnel on short-term trips or those working abroad.

The system made available to resources travelling on mission, secondment or work shift rotations between Italy and a foreign country aims to provide Pre-travelling induction accompanied by a series of information on the Security and Health aspects specific to the destination country, as well as to guarantee tracking of workers travelling abroad. More information regarding cybersecurity can be found in the chapter "Keeping people and operations safe and sound" of "Making change possible - Sustainability Report 2019".



GRI 205-2
GRI 205-3
GRI 415-1

Fighting corruption

Saipem has always conducted its business with openness, fairness, transparency, integrity and in full observance of laws and regulations. In this context, corruption is an intolerable impediment to the efficiency of business and to fair competition. Among the various initiatives, Saipem has designed an "Anticorruption Compliance Programme", a detailed system of regulations and controls for the purpose of preventing corruption, in line with international best practices and with the principle of "zero tolerance" expressed in the Code of Ethics. In particular, Saipem's Code of Ethics (included in Model 231) establishes that "*Corruption practices, illegitimate favours, collusion, solicitation, direct and/or through third parties of personal and career advantages for oneself or others, are without exception prohibited*".

In particular, Saipem's 'Anticorruption Compliance Programme' is dynamic and is constantly focused on

the evolution of the national and international framework of regulations and best practices. Over the course of the years, in a perspective of continuous improvement, the "Anticorruption Compliance Programme" has been constantly updated in line with the reference provisions (including among others the United Nations Convention against Corruption, the Organisation for Economic Co-operation and Development Convention on Combating the Bribery of Foreign Public Officials in International Business Transactions, Italian Legislative Decree No. 231 of June 8, 2001, the US Foreign Corrupt Practices Act, the UK Bribery Act and the French Sapin 2 law). More specifically, the Board of Directors of Saipem SpA approved the "Anticorruption Management System Guideline" (Anticorruption MSG) on April 23, 2012. This repealed and replaced the previous Anticorruption Compliance Guidelines in order to optimise the compliance system in force. All the detailed anticorruption procedures for specific risk

(2) Human rights clauses are in the "General terms and conditions" of all contracts.

areas were then updated (inter alia, the procedures for joint venture agreements, sponsorship, gifts, non-profit initiatives, vendors and consultants, relations with public administration and merger & acquisition operations).

In 2019, Saipem SpA issued the latest revision of the "Anticorruption" MSG which represents an improvement of the regulatory context of the "Anticorruption Compliance Programme" and of Saipem's Corporate Governance systems on anticorruption issues.

The adoption and implementation of the aforementioned MSG are obligatory for Saipem SpA and all its subsidiaries.

All Saipem personnel are responsible for complying with the anticorruption laws: for this reason all documents relating to this topic are easily accessible on the Company's website and intranet portal. In this context, a particularly important role is played by the managers, who are called upon to enforce observance of the anticorruption procedures, also by their collaborators.

Furthermore, Saipem was among the first Italian companies to achieve the international certificate ISO 37001:2016 "Anti-bribery management systems". This certification, awarded by an independent accredited body, identifies a management standard that helps organisations in the fight against corruption, establishing a culture of integrity, transparency and compliance.

The certification process, which included an audit phase that began in January 2018 and ended in April 2018, took into consideration such factors as the organisational structure, local presence, processes and services.

Aware that the primary element for developing an effective strategy to combat the phenomenon of corruption lies in fostering thorough knowledge of the tools for its prevention, Saipem considers the training activities and awareness-raising activities of paramount importance.

In 2019, the number of employees trained in this

field recorded a downturn of -13% (for both perimeters, on an annual basis); this data does not compromise the improvement trend which began in 2018 and is in line with the objectives set at the start of the year in the compliance training plan. A slight fall was also recorded in the hours of training delivered, which have decreased by -6% compared to 2018.

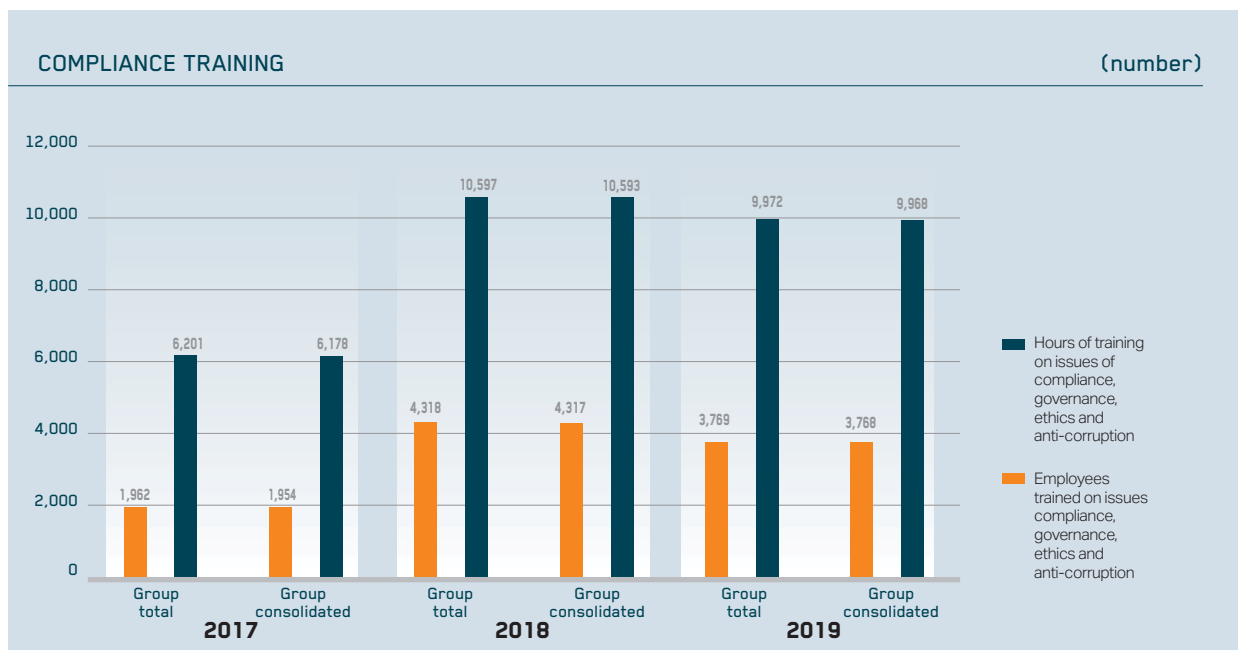
Moreover, the Internal Audit function of Saipem shall independently review and assess the internal control system in order to verify compliance with the requirements of the Anticorruption MSG, on the basis of its own annual audit programme approved by the Board of Directors of Saipem SpA.

Any violation, alleged or confirmed, of the anticorruption laws or procedures must be reported immediately via one of the channels indicated in the procedure "Whistleblowing reports received by Saipem and its subsidiaries", available on the Company website and intranet portal.

Disciplinary measures are provided for people in Saipem who violate the anticorruption regulations and omit to report violations that they are aware of. In 2019, no confirmed cases of corruption were reported.

Saipem requests compliance by Business Partners with the applicable laws, including the anticorruption laws pertinent to the business activities carried out with Saipem, and the commitment to follow the reference principles contained in the Anticorruption MSG.

It should also be noted that Saipem does not make direct or indirect contributions, in whatever form, to political parties, movements, committees, political organisations, or to their representatives and candidates. Direct or indirect contributions may be made to trade unions and their representatives, to the extent this is provided for by mandatory legislative requirements or applicable collective labour contracts.





GRI 406-1

Reporting suspected violations

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

The term "report" refers to any information, news, facts of behaviour which any Saipem personnel has become aware of 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 prejudice to Saipem SpA (even if only to its image) or any of its subsidiaries, by employees, directors, officers and audit companies of Saipem SpA and its subsidiaries and third parties in a business relationship with these companies, in one or more of the following areas: the internal control system, accounting, internal accounting controls, auditing, fraud, administrative liabilities under Italian Legislative Decree No. 231/2001, and others (such as violations of the Code of Ethics, mobbing, security, and so on). Saipem has prepared various channels of communication in order to facilitate the sending of reports, including, but not necessarily limited to, regular post, fax numbers, yellow boxes, e-mail, and communication tools on the intranet/internet sites of Saipem SpA and its subsidiaries. The Internal Audit function ensures that all appropriate controls are in place for any

facts that have been reported, guaranteeing: (i) that these are carried out in the shortest time possible and respecting the completeness and accuracy of the investigation; (ii) the utmost confidentiality with methods suitable for protecting the person reporting. The investigations are composed of the following phases: (a) preliminary control; (b) verification; (c) audit; (d) monitoring of corrective actions. The Internal Audit prepares a quarterly report on reports received that, following examination by the Saipem Board of Statutory Auditors, is transmitted to the relevant people for suitable assessment.

The following were opened in 2019: 9 cases reporting discrimination issues, of which 5 are still open and 4 closed, 56 cases reporting worker's rights issues, of which 22 still open and the remaining 34 closed, 1 case reporting local community issues, closed during the year. All 66 cases were transmitted to the pertinent Company bodies (Board of Statutory Auditors of Saipem SpA, Supervisory Board of Saipem SpA and the Compliance Committees of the companies affected by the reports).

With regard to the discrimination issues, with reference to the 4 closed cases, in 2 cases the competent Company bodies decided to dismiss them on the basis of the investigation carried out, deeming that there was no violation of the Code of Ethics with reference to the facts reported, whilst violation was confirmed in 1 case and in 1 case,

(No.)	2017	2018	2019
Number of cases reported			
Total, of which:	118	120	146
- founded or partially founded	24	17	27
- unfounded	92	64	73
- open	2	39	46
Files on cases of discrimination			
Total, of which:	12	13	9
- founded or partially founded	4	-	1
- unfounded	8	7	3
- open	-	6	5
Files in relation to workers' rights			
Total, of which:	26	49	56
- founded or partially founded	3	3	8
- unfounded	21	24	26
- open	2	22	22
Files regarding violations of the rights of local communities			
Total, of which:	3	2	1
- founded or partially founded	-	-	-
- unfounded	3	2	1
- open	-	-	-

The data are updated as of December 31, 2019.

though without violation, corrective action was taken. The following corrective actions were identified: disciplinary measures for reported employees and awareness raising activities targeting the person whose reported behaviour was deemed to be non-compliant. It should also be noted that 6 discrimination cases reported in 2018 were closed in 2019; they were still open at the time of the last reporting. Of the 6 cases closed, 4 were unfounded and 2 were founded. In relation to these cases, corrective actions were identified for the person whose behaviour was reported, consisting in awareness raising activities to ensure compliance with the Company procedures and policies, as well as the Group Code of Ethics, and follow up actions will be implemented to check the improvement in the reported situation. Among the unfounded cases, in 1 of these, while no breach was confirmed, a corrective action was identified, consisting of awareness raising activities towards the person whose reported behaviour was deemed to be non-compliant.

With regard to the issues of workers' rights, with reference to the 34 closed cases, in 15 cases the competent Company bodies decided to dismiss them on the basis of the investigation carried out, deeming that there was no violation of the Code of Ethics with reference to the facts reported, whilst violation was confirmed in 8 cases and in 11 cases, though without violation, corrective action was taken. The following corrective actions were

identified: awareness raising in relation to adopting behaviour appropriate to the role covered, awareness raising on compliance with Company processes, various kinds of disciplinary measures (verbal warnings, written warnings, suspension from work), reported employee monitoring, transfer of the reporting employee, alignment of an employee's salary with the established salary grids, assessment of the possible extension of the video-surveillance system in the offices and improvement of the local apprentice management process.

It should also be noted that 13 workers' rights cases reported in 2018 were closed in 2019; they were still open at the time of the last reporting. Of the 13 cases closed, 9 were unfounded, while in 2 cases, while no breach was confirmed, the following corrective actions were identified: in 1 case, the transfer of the reporting employee and in 1 case the reported employee was included in the personnel reduction plan. For the remaining 2 cases, which were partially founded, the corrective action identified was the assessment of disciplinary measures towards the reported employees.

As regards issues on the relations with local communities, with reference to the closed case, the competent Company bodies decided to dismiss it on the basis of the investigations carried out, deeming that there was no violation of the Code of Ethics with reference to the facts reported. No corrective actions were implemented.

GRI content index

In accordance with GRI standards - Core option

Legend of the documents

NFS19: Consolidated Non-Financial Statement 2019

AR19: Annual Report 2019

CG19: Corporate Governance and Shareholding Structure Report 2019

GRI 102: GENERAL DISCLOSURES 2016

Disclosure	Section name and page number or link
Organisation profile	
102-1	Cover (AR19).
102-2	"Directors' Report", pages 15-29 (AR19).
102-3	Back cover (AR19).
102-4	Inside front cover (AR19).
102-5	Table "Shareholding structure", page 60 (CG19).
102-6	"Directors' Report", pages 12-14 (AR19).
102-7	"Company profile and key operations", page 77 (NFS19); "Workforce trend", pages 109-110 (NFS19); "Letter to the Shareholders", pages 2-4 (AR19); "Financial and economic results", pages 30-40 (AR19).
102-8	"Workforce trend", page 109-110 (NFS19).
102-9	"Social aspects", pages 99-103 (NFS19).
102-10	"Social aspects", pages 99-103 (NFS19).
102-11	"Company management and organisation model", pages 78-80 (NFS19).
102-12	"Business ethics", pages 117-121 (NFS19).
102-13	"Relations with stakeholders", pages 82-83 (NFS19); "Relations with institutions and business associations", pages 84-85 (NFS19).
Strategy	
102-14	"Letter to the Shareholders", pages 2-4 (AR19).
Ethics and Integrity	
102-16	"Company management and organisation model", pages 78-80 (NFS19); Inside front cover (AR19).
Corporate Governance	
102-18	"Governance of business sustainability", page 86 (NFS19).
Stakeholder engagement	
102-40 102-41 102-42 102-43 102-44	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Company management and organisation model", pages 78-80 (NFS19); "Relations with stakeholders", pages 82-83 (NFS19); "A sustainable supply chain", pages 102-103 (NFS19); "Industrial relations", pages 113-114 (NFS19).
Reporting practice	
102-45	"Consolidation scope at December 31, 2019", pages 158-162 (AR19).
102-46 102-47 102-48 102-49 102-50	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Consolidation scope at December 31, 2019", pages 158-162 (AR19); "Changes in the consolidation scope", page 163 (AR19).
102-51	"Consolidated Non-Financial Statement" (NFS18), approved March 11, 2019.
102-52	"Methodology, principles and reporting criteria", pages 72-76 (NFS19).
102-53	"Inside back cover (AR19).
102-54	"Methodology, principles and reporting criteria", pages 72-76 (NFS19).
102-55	"GRI content index", pages 122-125 (NFS19).
102-56	"Independent Auditors' Report", pages 126-129 (NFS19).

MATERIAL ISSUES

Specific Standard	Section name and page number or link	Notes/Omissions
GRI 201: Economic Performance 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Our business", pages 77-85 (NFS19); "Our contribution to mitigating climate change", pages 90-94 (NFS19).	
201-1: Direct economic value generated and distributed	"Economic value generated and distributed", page 81 (NFS19).	
201-2: Financial implications and other risks and opportunities due to climate change	"Analysis of the climate-related scenario", pages 91-92 (NFS19); "Risks and opportunities", pages 10-17 (Climate: from strategy to action).	

MATERIAL ISSUES

Specific Standard	Section name and page number or link	Notes/Omissions
GRI 201: Economic Performance 2016		
201-4: Financial assistance received from government	Note 43 "Adempimento degli obblighi di trasparenza e pubblicità, legge 4 agosto 2017, n. 124 (art. 1, commi 124-129)", page 347 of Annual Report Italian version.	
GRI 202: Market Presence 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Local presence", page 101 (NFS19).	
202-2: Proportion of senior management hired from the local community	"Local presence", page 101 (NFS19).	
GRI 203: Indirect Economic Impacts 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19), "Our business", pages 77-85 (NFS19).	
203-1: Infrastructure investments and services supported	"Relations with stakeholders", pages 82-83 (NFS19).	
GRI 204: Procurement Practices 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19), "Supply chain management", pages 79-80 (NFS19).	
204-1: Proportion of spending on local suppliers	"Supply chain management", pages 79-80 (NFS19).	
GRI 205: Anti-corruption 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Business ethics", pages 117-121 (NFS19).	
205-2: Communication and training about anti-corruption policies and procedures	"Fighting corruption", pages 118-119 (NFS19).	The Company will include more details regarding the anti-corruption training provided within the next two reporting cycles.
205-3: Confirmed incidents of corruption and actions taken	"Fighting corruption", pages 118-119 (NFS19).	
GRI 302: Energy 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Our contribution to mitigating climate change", pages 90-94 (NFS19).	
302-1: Energy consumption within the organisation	"Energy efficiency", pages 92-93 (NFS19).	The percentage of electricity produced from renewable sources and consumed by the Group depends on the specific national electricity mixes.
302-3: Energy intensity	"Energy efficiency", pages 92-93 (NFS19).	
302-4: Reduction of energy consumption	"Energy efficiency", pages 92-93 (NFS19).	
GRI 305: Emissions 2016		
103-1, 103-2 and 103s-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Our contribution to mitigating climate change", pages 90-94 (NFS19); "Protecting the environment and minimising environmental impacts", pages 94-99 (NFS19).	
305-1: Direct (Scope 1) GHG emissions	"GHG emissions", pages 93-94 (NFS19).	
305-2: Energy indirect (Scope 2) GHG emissions	"GHG emissions", pages 93-94 (NFS19).	
305-3: Other indirect (Scope 3) GHG emissions	"GHG emissions", pages 93-94 (NFS19).	
305-4: GHG emissions intensity	"GHG emissions", pages 93-94 (NFS19).	
305-5: Reduction of GHG emissions	"GHG emissions", pages 93-94 (NFS19).	
305-7: Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	"Preserving the air quality", pages 98-99 (NFS19).	
Reduction of air pollutant	"Preserving the air quality", pages 98-99 (NFS19).	
GRI 306: Effluents and Waste 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Protecting the environment and minimising environmental impacts", pages 94-99 (NFS19).	
306-3: Significant spills	"Spill prevention and response", pages 96-97 (NFS19).	

MATERIAL ISSUES

Specific Standard	Section name and page number or link	Notes/Omissions
GRI 308: Supplier Environmental Assessment 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Social aspects", pages 99-103 (NFS19).	
308-1: New suppliers that were screened using environmental criteria	"A sustainable supply chain", pages 102-103 (NFS19).	
GRI 401: Employment 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Human capital", pages 109-116 (NFS19).	
401-2: Benefits provided to full-time employees	"Equal treatment and enhancement of differences", pages 114-116 (NFS19).	
GRI 403: Occupational Health and Safety 2018		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Safeguarding the health and safety of people", pages 104-109 (NFS19).	
403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Safeguarding the health and safety of people", page 104 (NFS19).	
403-9: Work-related injuries	"Safety", pages 104-107 (NFS19).	
403-10: Work-related ill health	"Employee health", pages 108-109 (NFS19).	
GRI 404: Training and education 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Human capital", pages 109-116 (NFS19).	
404-1: Average hours of training per year per employee	"Reverse Mentoring and training", pages 112-113 (NFS19).	
404-3: Employees receiving regular performance and career development reviews	"Development of skills", pages 110-112 (NFS19).	
GRI 405: Diversity and equal opportunity 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Human capital", pages 109-116 (NFS19).	
405-1: Diversity of governance bodies and employees	"Governance of business sustainability", page 86 (NFS19); "Equal treatment and enhancement of differences", pages 114-116 (NFS19).	
405-2: Ratio of basic salary and remuneration of women to men	"Equal treatment and enhancement of differences", pages 114-116 (NFS19).	
GRI 406: Non Discrimination 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Business ethics", pages 117-121 (NFS19).	
406-1: Incidents of discrimination and corrective actions taken	"Reporting suspected violations", pages 120-121 (NFS19).	
GRI 407: Freedom of association and collective bargaining 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Social aspects", pages 99-103 (NFS19); "Business ethics", pages 117-121 (NFS19).	
407-1: Operations and suppliers in which the freedom of association and collective bargaining may be at risk	"Human rights", page 117 (NFS19).	
GRI 408: Child Labour 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Social aspects", pages 99-103 (NFS19); "Business ethics", pages 117-121 (NFS19).	
408-1: Operations and suppliers at significant risk for incidents of child labor	"Human rights", page 117 (NFS19).	
GRI 409: Forced and Compulsory Labor 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Social aspects", pages 99-103 (NFS19); "Business ethics", pages 117-121 (NFS19).	
409-1: Operations and suppliers at significant risk for incidents of forced or compulsory labor	"Human rights", page 117 (NFS19).	

MATERIAL ISSUES

Specific Standard	Section name and page number or link	Notes/Omissions
GRI 410: Security Practices 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Business ethics", pages 117-121 (NFS19).	
410-1: Security personnel trained in human rights policies or procedures	"Security practices", pages 117-118 (NFS19).	In 2019, the security staff was not involved in any training course on ethics and compliance issues. The creation of an e-learning module dedicated to these issues is being finalised for dissemination during 2020.
GRI 412: Human Rights Assessment 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Social aspects", pages 99-103 (NFS19); "Business ethics", pages 117-121 (NFS19).	
412-2: Employee training on human rights policies or procedures	"A sustainable supply chain", pages 102-103 (NFS19).	
412-3: Investment agreements and contracts that include human rights clauses	"A sustainable supply chain", pages 102-103 (NFS19); "Security practices", pages 117-118 (NFS19).	
GRI 413: Local Communities 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19), "Social aspects", pages 99-103 (NFS19).	
413-2: Operations with significant actual and potential negative impacts on local communities	"Social aspects", pages 99-103 (NFS19).	
GRI 414: Supplier Social assessment 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Social aspects", pages 99-103 (NFS19).	The data on the suppliers are collected through the qualification questionnaire and subsequently analysed.
414-1: New suppliers that were screened using social criteria	"A sustainable supply chain", pages 102-103 (NFS19).	The screening on these issues is carried out only on new suppliers that supply goods and services belonging to the most significant commodity classes and operating in countries considered as critical.
GRI 415: Public Policy 2016		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Business ethics", pages 117-121 (NFS19).	
415-1: Political contributions	"Fighting corruption", pages 118-119 (NFS19).	
Technological and operating innovation		
103-1, 103-2 and 103-3	"Methodology, principles and reporting criteria", pages 72-76 (NFS19); "Our contribution to mitigating climate change", pages 90-94 (NFS19).	
Amount spent on decarbonisation R&D and technology application	"Innovation and research to fight climate change", pages 92-93 (NFS19).	
Number of signed cooperation/license agreements for energy decarbonisation projects	"Innovation and research to fight climate change", pages 92-93 (NFS19).	
Environmental product innovation	"Innovation and research to fight climate change", pages 92-93 (NFS19).	

INDEPENDENT AUDITORS' REPORT



KPMG S.p.A.
 Revisione e organizzazione contabile
 Via Vittor Pisani, 25
 20124 MILANO MI
 Telefono +39 02 6763.1
 Email it-fmauditaly@kpmg.it
 PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of the Consob Regulation adopted with Resolution no. 20267 of 18 January 2018

*To the board of directors of
 Saipem S.p.A.*

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of the Consob (the Italian Commission for listed companies and the stock exchange) Regulation adopted with Resolution no. 20267 of 18 January 2018, we have been engaged to perform a limited assurance engagement on the 2019 consolidated non-financial statement of the Saipem Group (the "group") prepared in accordance with article 4 of the decree, presented in the specific section of the directors' report and approved by the board of directors on 12 March 2020 (the "NFS").

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Saipem S.p.A. (the "parent") for the NFS

The directors are responsible for the preparation of an NFS in accordance with articles 3 and 4 of the decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued by GRI - Global Reporting Initiative (the "GRI Standards"), which they have identified as the reporting standards.

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the decree and the group's business and characteristics, to the extent necessary to enable an understanding of the group's business, performance, results and the impacts it generates.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Società per azioni
 Capitale sociale
 Euro 10.345.200,00 I.v.
 Registro Imprese Milano e
 Codice Fiscale N. 00709600159
 R.E.A. Milano N. 512867
 Partita IVA 00709600159
 VAT number IT00709600159
 Sede legale: Via Vittor Pisani, 25
 20124 Milano MI ITALIA



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The directors' responsibility also includes the design of an internal model for the management and organisation of the group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the group's policies and the identification and management of the risks generated or borne.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, compliance with the decree's provisions.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibilities

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the parent's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

- 1 Analysing the material aspects based on the group's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the decree and taking into account the reporting standards applied.
- 2 Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the decree.



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- 3 Comparing the financial disclosures presented in the NFS with those included in the group's consolidated financial statements.
- 4 Gaining an understanding of the following:
 - the group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the decree;
 - the entity's policies in connection with the aspects set out in article 3 of the decree, the achieved results and the related key performance indicators;
 - the main risks generated or borne in connection with the aspects set out in article 3 of the decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 5.a).

- 5 Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

Specifically, we held interviews and discussions with the parent's management personnel. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

Furthermore, with respect to significant information, considering the group's business and characteristics, we carried out the following procedures:

- at group level,
 - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
 - b) we carried out analytical and limited procedures to check, on a sample basis, the correct aggregation of data in the quantitative information;
- we visited the Al Zour (Kuwait), Saipem 7000 (port of Eemshaven) and San Donato Milanese (Italy) sites, which we have selected on the basis of their business contribution to the key performance indicators at Group level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.



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Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2019 consolidated non-financial statement of the Saipem Group has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the GRI Standards.

Other matters

Other auditors performed a limited assurance engagement on the group's 2018 and 2017 consolidated non-financial statements and expressed an unqualified conclusion thereon on 3 April 2019 and 5 April 2018, respectively.

Milan, 6 April 2020

KPMG S.p.A.

(signed on the original)

Cristina Quarleri
Director of Audit

SAIPEM

**CONSOLIDATED FINANCIAL
STATEMENTS 2019**

Statement of financial position

(€ million)	Note ⁽¹⁾	Dec. 31, 2018		Dec. 31, 2019	
		Total	of which with related parties ⁽²⁾	Total	of which with related parties ⁽²⁾
ASSETS					
Current assets					
Cash and cash equivalents	(No. 8)	1,674		2,272	
Financial assets measured at fair value through OCI	(No. 9)	86		87	
Other financial assets	(No. 10)	34	2	180	148
Lease assets	(No. 17)	-		8	
Trade receivables and other assets	(No. 11)	2,610	756	2,601	813
Inventories	(No. 12)	303		303	
Contract assets	(No. 12)	1,086		1,028	
Tax assets	(No. 13)	201		251	
Other tax assets	(No. 13)	117		167	
Other assets	(No. 14 and 26)	100		115	
Total current assets		6,211		7,012	
Non-current assets					
Property, plant and equipment	(No. 15)	4,326		4,129	
Intangible assets	(No. 16)	702		698	
Right-of-Use assets	(No. 17)	-		584	
Equity-accounted investments	(No. 18)	119		133	
Other equity investments	(No. 18)	-		-	
Other financial assets	(No. 10)	-		69	
Lease assets	(No. 17)	-		8	
Deferred tax assets	(No. 19)	250		297	
Tax assets	(No. 13)	-		24	
Other assets	(No. 14 and 26)	67	1	55	1
Total non-current assets		5,464		5,997	
Assets held for sale	(No. 27)	2		-	
TOTAL ASSETS		11,677		13,009	
LIABILITIES AND EQUITY					
Current liabilities					
Current financial liabilities	(No. 22)	80	-	164	1
Current portion of non-current financial liabilities	(No. 22)	225		244	
Current portion of non-current lease liabilities	(No. 17)	-		149	
Trade payables and other liabilities	(No. 20)	2,674	49	2,528	314
Contract liabilities	(No. 20)	1,205	292	1,848	432
Tax liabilities	(No. 13)	46		87	
Other tax liabilities	(No. 13)	108		139	
Other liabilities	(No. 21 and 26)	92		45	
Total current liabilities		4,430		5,204	
Non-current liabilities					
Non-current financial liabilities	(No. 22)	2,646		2,670	
Non-current lease liabilities	(No. 17)	-	-	477	3
Provisions for risks and charges	(No. 24)	330		253	
Employee benefits	(No. 25)	208		246	
Deferred tax liabilities	(No. 19)	18		6	
Tax liabilities	(No. 13)	-		27	
Other liabilities	(No. 21 and 26)	9		1	
Total non-current liabilities		3,211		3,680	
TOTAL LIABILITIES		7,641		8,884	
EQUITY					
Non-controlling interests	(No. 28)	74		93	
Equity attributable to the owners of the parent:	(No. 28)	3,962		4,032	
- share capital	(No. 28)	2,191		2,191	
- share premium	(No. 28)	553		553	
- other reserves	(No. 28)	(122)		(24)	
- retained earnings		1,907		1,395	
- profit (loss) for the year		(472)		12	
- negative reserve for treasury shares in portfolio	(No. 28)	(95)		(95)	
Total equity		4,036		4,125	
TOTAL LIABILITIES AND EQUITY		11,677		13,009	

(1) The notes are an integral part of the consolidated financial statements.

(2) For an analysis of figures shown as "of which with related parties", see Note 39 "Related party transactions".

Income statement

(€ million)	Note	2018		2019	
		Total	of which with related parties ⁽¹⁾	Total	of which with related parties ⁽¹⁾
REVENUE					
Core business revenue	(No. 31)	8,526	1,753	9,099	2,362
Other revenue and income	(No. 31)	12	-	19	1
Total revenue		8,538		9,118	
Operating expenses					
Purchases, services and other costs	(No. 32)	(6,110)	(68)	(6,240)	(271)
Net reversals of impairment losses (impairment losses) on trade receivables and other assets	(No. 32)	(57)		(62)	
Personnel expenses	(No. 32)	(1,522)		(1,670)	
Depreciation, amortisation and impairment losses	(No. 32)	(811)		(690)	
Other operating income (expense)	(No. 32)	(1)		-	
OPERATING PROFIT (LOSS)		37		456	
Financial income (expense)					
Financial income		209	1	515	1
Financial expense		(268)		(643)	
Derivative financial instruments		(106)		(82)	
Net financial income (expense)	(No. 33)	(165)		(210)	
Gains (losses) on equity investments					
Share of profit (loss) of equity-accounted investees		(87)		(18)	
Other gains (losses) from equity investments		(1)		-	
Net gains (losses) on equity investments	(No. 34)	(88)		(18)	
PRE-TAX PROFIT (LOSS)		(216)		228	
Income taxes	(No. 35)	(194)		(130)	
PROFIT (LOSS) FOR THE YEAR		(410)		98	
Attributable to:					
- owners of the parent		(472)		12	
- non-controlling interests	(No. 36)	62		86	
Earnings (loss) per share attributable to owners of the parent (€ per share)					
Basic earnings (loss) per share	(No. 37)	(0.47)		0.01	
Diluted earnings (loss) per share	(No. 37)	(0.46)		0.01	

(1) For an analysis of figures shown as "of which with related parties", see Note 39 "Related party transactions".

Statement of comprehensive income

(€ million)	2018	2019
Profit (loss) for the year	(410)	98
Other items of comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit plans for employees	-	(17)
Change in the fair value of equity investments measured at fair value through OCI	(1)	-
Share of other comprehensive income of equity-accounted investees relating to remeasurement of defined benefit plans	-	(1)
Income tax relating to items that will not be reclassified	-	4
Items that may be reclassified subsequently to profit or loss		
Change in the fair value of cash flow hedges	(100)	36
Change in the fair value of financial assets, other than equity investments, measured at fair value through OCI	(1)	1
Exchange differences arising from the translation into euro of financial statements in currencies other than euro	40	50
Share of other comprehensive income of equity-accounted investees	-	-
Income tax relating to items that will be reclassified	18	(7)
Total other comprehensive income (expense) net of taxation	(44)	66
Comprehensive income (expense) for the year	(454)	164
Attributable to:		
- owners of the parent	(518)	76
- non-controlling interests	64	88

Statement of changes in equity

	Saipem shareholders' equity															
	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Fair value reserve (equity instruments)	Hedging reserve, net of tax	Fair value reserve (AFS financial assets (net of tax))	Transition reserve	Actuarial reserve, net of tax	Retained earnings (losses) carried forward	Profit (loss) for the year	Negative reserve for treasury shares in portfolio	Total	Non-controlling interests	Total equity
(€ million)																
Balance at December 31, 2016	2,191	1,750	2	88	-	-	(182)	-	32	(20)	3,161	(2,087)	(69)	4,866	19	4,885
2017 profit (loss)	-	-	-	-	-	-	-	-	-	-	-	(328)	-	(328)	21	(307)
Other items of comprehensive income																
Items that will not be reclassified subsequently to profit or loss																
Remeasurements of defined benefit plans for employees net of the tax effect	-	-	-	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Share of other comprehensive income of equity-accounted investees relating to remeasurement of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Items that may be reclassified subsequently to profit or loss																
Change in the fair value of cash flow hedging derivatives net of the tax effect	-	-	-	-	-	-	223	-	-	-	-	-	-	223	1	224
Exchange differences of financial statements in currencies other than euro	-	-	-	-	-	-	-	(187)	-	-	15	-	-	(172)	(4)	(176)
Share of other comprehensive income of equity-accounted investees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change to fair value of equity instruments and financial instruments available for sale net of the tax effects	-	-	-	-	-	-	-	(1)	-	-	-	-	-	(1)	-	(1)
Total	-	-	-	-	-	-	223	(1)	(187)	-	15	-	-	50	(3)	47
Total comprehensive income (expense) for 2017	-	-	-	-	-	-	223	(1)	(187)	(1)	15	(328)	-	(279)	18	(261)
Owner transactions																
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7)	(7)
Retained earnings (losses)	-	(701)	-	-	-	-	-	-	-	-	(1,386)	2,087	-	-	-	-
Increase (reduction) of share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalisation of costs of share capital increase net of taxes	-	-	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	-	-	-	(27)	(27)	-	(27)
Total	-	(701)	-	-	-	-	-	-	-	-	(1,387)	2,087	(27)	(28)	(7)	(35)
Other changes in equity																
Recognition of fair value of incentive plans	-	-	-	-	-	-	-	-	-	-	10	-	-	10	-	10
Other changes	-	-	-	-	-	1	-	-	1	-	(13)	-	-	(11)	11	-
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	1	-	-	1	-	(3)	-	-	(1)	11	10
Balance at December 31, 2017	2,191	1,049	2	88	-	1	41	(1)	(154)	(21)	1,786	(328)	(96)	4,558	41	4,599
Changes to standards - Application of IFRS 9	-	-	-	-	-	-	-	-	-	-	(28)	-	-	(28)	-	(28)
Changes to standards - Application of IFRS 15	-	-	-	-	-	-	-	-	-	-	(20)	-	-	(20)	-	(20)
Balance after changes to standards	-	-	-	-	-	-	-	-	-	-	(48)	-	-	(48)	-	(48)
Balance at January 1, 2018	2,191	1,049	2	88	-	1	41	(1)	(154)	(21)	1,738	(328)	(96)	4,510	41	4,551
2018 profit (loss)	-	-	-	-	-	-	-	-	-	-	-	(472)	-	(472)	62	(410)
Other items of comprehensive income																
Items that will not be reclassified subsequently to profit or loss																
Remeasurements of defined benefit plans for employees net of the tax effect	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in the fair value of equity investments measured at fair value through OCI	-	-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	-	(1)
Share of other comprehensive income of equity-accounted investees relating to remeasurement of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	(1)	-	-	-	-	-	-	-	(1)	-	(1)
Items that may be reclassified subsequently to profit or loss																
Change in the fair value of cash flow hedging derivatives net of the tax effect	-	-	-	-	-	-	(82)	-	-	-	-	-	-	(82)	-	(82)
Change in the fair value of financial assets, other than equity investments, measured at fair value through OCI	-	-	-	-	-	-	-	(1)	-	-	-	-	-	(1)	-	(1)

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

Saipem shareholders' equity

(€ million)	Share capital	Share premium reserve	Other reserves	Legal reserve	Reserve for treasury shares	Fair value reserve (equity instruments)	Hedging reserve, net of tax	Fair value reserve (AFS financial assets (net of tax))	Translation reserve	Actuarial reserve, net of tax	Retained earnings (losses) carried forward	Profit (loss) for the year	Negative reserve for treasury shares in portfolio	Total	Non-controlling interests	Total equity
Exchange differences of financial statements in currencies other than euro	-	-	-	-	-	-	-	-	46	-	(8)	-	-	38	2	40
Share of other comprehensive income of equity-accounted investees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	(82)	(1)	46	-	(8)	-	-	(45)	2	(43)
Total comprehensive income (expense) for 2018	-	-	-	-	-	(1)	(82)	(1)	46	-	(8)	(472)	-	(518)	64	(454)
Owner transactions																
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8)	(8)
Retained earnings (losses)	-	(496)	-	-	-	-	-	-	-	-	168	328	-	-	-	-
Increase (reduction) of share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalisation of costs of share capital increase net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of non-controlling interests	-	-	(41)	-	-	-	-	-	-	-	-	-	-	(41)	(23)	(64)
Total	-	(496)	(41)	-	-	-	-	-	-	-	168	328	-	(41)	(31)	(72)
Other changes in equity																
Recognition of fair value of incentive plans	-	-	-	-	-	-	-	-	-	-	14	-	1	15	-	15
Other changes	-	-	-	-	-	-	1	(1)	1	-	(5)	-	-	(4)	-	(4)
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	1	(1)	1	-	9	-	1	11	-	11
Balance at December 31, 2018	2,191	553	(39)	88	-	-	(40)	(3)	(107)	(21)	1,907	(472)	(95)	3,962	74	4,036
2019 profit (loss)	-	-	-	-	-	-	-	-	-	-	-	12	-	12	86	98
Other items of comprehensive income																
Items that will not be reclassified subsequently to profit or loss																
Remeasurements of defined benefit plans for employees net of the tax effect	-	-	-	-	-	-	-	-	-	(13)	-	-	-	(13)	-	(13)
Change in the fair value of equity investments measured at fair value through OCI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of other comprehensive income of equity-accounted investees relating to remeasurement of defined benefit plans for employees, net of tax	-	-	-	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Total	-	-	-	-	-	-	-	-	-	(14)	-	-	-	(14)	-	(14)
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	-	-	-	-	-	-	30	-	-	-	-	-	-	30	-	30
Change in the fair value of financial assets, other than equity investments, measured at fair value through OCI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences of financial statements in currencies other than euro	-	-	-	-	-	-	-	-	86	-	(38)	-	-	48	2	50
Share of other comprehensive income of equity-accounted investees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	30	-	86	-	(38)	-	-	78	2	80
Total comprehensive income (expense) for 2019	-	-	-	-	-	-	30	-	86	(14)	(38)	12	-	76	88	164
Owner transactions																
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(62)	(62)
Retained earnings (losses)	-	-	-	-	-	-	-	-	-	-	(472)	472	-	-	-	-
Increase (reduction) of share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capitalisation of costs of share capital increase net of taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares repurchased	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of non-controlling interests	-	-	(7)	-	-	-	-	-	(1)	-	-	-	-	(8)	(7)	(15)
Total	-	-	(7)	-	-	-	-	-	(1)	-	(472)	472	-	(8)	(69)	(77)
Other changes in equity																
Recognition of fair value of incentive plans	-	-	-	-	-	-	-	-	-	-	2	-	-	2	-	2
Other changes	-	-	-	-	-	-	4	1	(1)	(4)	-	-	-	-	-	-
Transactions with companies under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	4	1	(1)	(2)	-	-	-	2	-	2
Balance at December 31, 2019	2,191	553	(46)	88	-	-	(10)	1	(21)	(36)	1,395	12	(95)	4,032	93	4,125

Statement of cash flows

(€ million)	Note	2018	2019
Profit (loss) for the year		(472)	12
Non-controlling interests		62	86
Adjustments to reconcile profit (loss) to cash flows from operating activities:			
- depreciation and amortisation	(No. 32)	464	615
- net impairment losses (reversals of impairment losses) on property, plant and equipment	(No. 32)	347	75
- share of profit (loss) of equity-accounted investees	(No. 34)	87	18
- net (gains) losses on disposal of assets		4	(2)
- interest income		(6)	(6)
- interest expense		91	119
- income taxes	(No. 35)	194	130
- other changes		(66)	153
Changes in working capital:			
- inventories		21	2
- trade receivables		(272)	92
- trade payables		140	(139)
- provisions for risk and charges		(43)	(7)
- contract assets and contract liabilities		230	700
- other assets and liabilities		183	(337)
<i>Cash flows from working capital</i>		<i>259</i>	<i>311</i>
Change in the provision for employee benefits		8	21
Dividends received		4	6
Interest received		6	5
Interest paid		(75)	(92)
Income taxes paid net of refunds of tax credits		(196)	(194)
Net cash flows generated by operating activities		711	1,257
<i>of which with related parties</i> ⁽¹⁾	(No. 39)		1,425
2,441			
Investments:			
- property, plant and equipment	(No. 15)	(467)	(327)
- intangible assets	(No. 16)	(18)	(9)
- equity investments	(No. 18)	(27)	(45)
- securities for operating purposes		-	-
- loan assets for operating purposes		-	-
<i>Cash flows from investments</i>		<i>(512)</i>	<i>(381)</i>
Disposals:			
- property, plant and equipment		1	9
- out-of-scope entities and business units		-	-
- equity investments		-	2
- securities for operating purposes		-	-
- loan assets for operating purposes		-	-
<i>Cash flows from disposals</i>		<i>1</i>	<i>11</i>
<i>Net variation of securities and loan assets not related to operations</i> ⁽²⁾		<i>(40)</i>	<i>(146)</i>

(1) For an analysis of figures shown as "of which with related parties", see Note 39 "Related party transactions".

(2) From December 2019 Saipem has included a specific item in the statement of cash flows referring to net investment (investments minus disposals) in assets representing temporary surplus liquidity commitments and short-term loan assets, both deducted from the financial liabilities for the purpose of determining the Group's net financial position pursuant to the Consob model. Previously the flows relating to these assets were represented respectively in the investment/disposal flows under securities and loan assets. A specific item was identified to facilitate the reconciliation of the statutory and reclassified statements of cash flows, which explains the variation in the net financial position in the Directors' Report, as the difference between the two statement models is given by the net investment in these assets (considered in the cash flows from financing activities in the reclassified one). To ensure uniform comparison, the statement of cash flows for the comparative periods was consistently reclassified.

cont'd **Statement of cash flows**

(€ million)	Note	2018	2019
Net cash flows used in investing activities		(551)	(516)
<i>of which with related parties</i> ⁽¹⁾	(No. 39)	-	(146)
Increase in non-current loans and borrowings		222	432
Decrease in non-current loans and borrowings		(349)	(389)
Decrease in lease liabilities		-	(127)
Increase (decrease) in current loans and borrowings		(45)	83
		(172)	(1)
Net capital contributions by non-controlling interests		-	-
Sale (repurchase) of additional interests in consolidated subsidiaries		(64)	(15)
Dividend distribution		(15)	(62)
Sale (repurchase) of treasury shares		-	-
Net cash flows used in financing activities		(251)	(78)
<i>of which with related parties</i> ⁽¹⁾	(No. 39)	-	1
Effect of changes in consolidation scope		-	-
Effect of exchange differences and other changes on cash and cash equivalents		14	(65)
Net variation in cash and cash equivalents		(77)	598
Cash and cash equivalents - opening balance	(No. 8)	1,751	1,674
Cash and cash equivalents - closing balance	(No. 8)	1,674	2,272

(1) For an analysis of figures shown as "of which with related parties", see Note 39 "Related party transactions".

For reporting required by IAS 7, please refer to Note 22 "Financial liabilities".

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 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 endorsed 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 Italian Legislative Decree No. 38/2005. The consolidated financial statements have been prepared on a going concern basis 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 as of December 31, 2019, approved by Saipem's Board of Directors on March 12, 2020 which approved its publication, were audited by the independent auditors KPMG SpA – main auditor fully responsible for auditing the Group's consolidated financial statements.

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

2 Basis of consolidation

Subsidiaries

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

An investor controls an investee when it is exposed, or has rights, to variable returns of the investee and has the ability to affect those returns through its decision-making power over the investee. An investor has decision-making power when it has rights that give it the effective ability to direct the relevant activities of the investee, i.e. the activities most likely to 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 impact² on the correct presentation of the Group's financial position and results of operations and cash flows for the year. These interests are accounted for as described in the following section "Equity method of accounting".

The subsidiaries' figures are included in the consolidated financial statements from the date on which control is transferred to the Group and up to the date on which control ceases, based on uniform accounting policies.

Fully-owned subsidiaries are consolidated using the full consolidation method. Assets and liabilities, and revenue and expenses related to fully consolidated companies are consolidated on a line-by-line basis in the consolidated financial statements. The carrying amount of related equity investments is eliminated against the corresponding portion of their equity.

Equity and profit attributable to non-controlling interests are shown separately in the statement of financial position and income statement, respectively.

In the event that additional ownership interests in subsidiaries are purchased after the transfer of control (purchase of non-controlling interests), any difference between the acquisition price and the portion of acquired equity is recognised in equity attributable to the owners of the parent. The effects of disposals of ownership interests in a subsidiary that do not result in a loss of control are also recognised in equity.

Conversely, a disposal of interests that implies loss of control, triggers recognition in the income statement of: (i) any gains or losses calculated as the difference between the consideration received and the carrying amount of the share of net assets disposed of; (ii) any gains or losses attributable to the adjustment of any investment retained at its fair value; (iii) any amounts recognised in other comprehensive income in relation to the former subsidiary that may be reclassified subsequently to profit or loss³. Any investment retained in the former subsidiary is recognised at its fair value at the date when control is lost; it represents the new carrying amount of the investment and thus the reference value of the investment to be recognised subsequently, in accordance with the applicable measurement criteria.

If losses attributable to non-controlling interests in a consolidated subsidiary exceed the non-controlling interests in the subsidiary's equity, the excess and any further losses attributable to the non-controlling investors are borne by the controlling investors, except to the extent that the non-controlling investors 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 controlling investors until the non-controlling investors' share of losses previously absorbed by the controlling investors have been recovered.

(1) The IFRS also 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) 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".

(3) 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 to retained earnings (losses).

Joint arrangements

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

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

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

Investments in associates

An associate is a company 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 it. Investments in associates are accounted for using the equity method, as indicated in the section, "Equity method of accounting".

Consolidated companies, non-consolidated subsidiaries, joint ventures and interests in joint operations and associates are indicated in the section "Consolidation scope". After this section, there follows a list detailing the changes that occurred in the consolidation scope compared to the previous year.

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

Equity method of accounting

Investments in unconsolidated subsidiaries, in joint ventures and in associates are accounted for using the equity method⁴.

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

If it does not have a significant impact on the equity and financial position of the Group and its results of operations, unconsolidated subsidiaries, joint ventures and associates are accounted for at cost, adjusted for impairment losses. When the impairment losses no longer exist, they are reversed and the reversal of the impairment losses is recognised in the income statement within "Other gains (losses) on equity investments".

A disposal of interests that results in a loss of joint control of or significant influence on the investee entails recognition in the income statement of: (i) any gains or losses calculated as the difference between the consideration received and the respective share of carrying amount disposed of; (ii) any gains or losses attributable to the adjustment of any investment retained at its fair value⁵; (iii) any amounts recognised in other comprehensive income in relation to the investee that may be reclassified subsequently to profit or loss⁶. Any investment retained in the investee is recognised at its fair value at the date when joint control or significant influence are lost; it represents the new carrying amount of the investment and thus the reference value of the investment to be recognised subsequently, in accordance with the applicable measurement criteria.

(4) 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 as if it had been applied since initial acquisition; the "step-up" of the carrying amount of interests owned before the acquisition of significant influence (joint control) is reported in equity.

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

(6) 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 to retained earnings (losses).

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

Business combinations

Business combinations are recognised using the acquisition method. The amount transferred in a business combination is determined at the date control is acquired and is equivalent to the fair value of the identifiable assets acquired, 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 equity of investees is determined by attributing to each of the items of the financial position its fair value at the date on which control is acquired⁷, except where IFRS provisions require otherwise. Any positive residual difference is recognised as goodwill. Negative residual differences are taken to 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 fair 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 (the 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 (the 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 interests⁸. 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 previously 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 other equity items.

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 twelve months of the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

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

Intra group transactions

Unrealised intragroup profits arising from transactions between consolidated companies are eliminated, as are intragroup receivables, payables, revenues and expenses, guarantees (including independent contract performance bonds), commitments and risks between consolidated companies. Unrealised profits resulting from transactions with equity-accounted investees are eliminated in proportion to the Group's interest. In both cases, intra group losses are not eliminated since they are considered an impairment indicator of the assets transferred.

Translation criteria

The financial statements of companies having a functional currency other than euro, which is the functional currency of the Group, are converted into euro applying: (i) closing spot rates for assets and liabilities; (ii) historical exchange rates to equity; (iii) the average rates for the period to the income statement and the cash flow statement (source: Banca d'Italia).

Exchange differences resulting from the translation of the financial statements of investees with a functional currency other than euro, and deriving from the application of different exchange rates for assets and liabilities, equity and the income statement, are recognised in equity under the item "Translation reserve" (included in "Other reserves") for the portion attributable to the owners of the parent⁹.

Cumulative exchange differences are charged to the income statement when an investment is fully disposed of, i.e. when control, joint control or significant influence on the investee is lost. In such circumstances, the differences are taken to profit or loss under the item "Other gains (losses) on equity 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 non-controlling interests in equity. In the event of a partial disposal that does not result in the loss of joint control or significant influence, the portion of exchange differences relating to the interest disposed of is taken to profit or loss. The repayment of the capital, carried out by a subsidiary having a functional currency other than euro, that does not result in a change in the equity investment held, entails charging the corresponding portion of the exchange rate differences to the income statement.

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

(7) The criteria used for determining fair value are described in the section "Fair value measurement" below.

(8) 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).

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

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, 2018	Exchange rate at Dec. 31, 2019	2019 average exchange rate
US Dollar	1.145	1.1234	1.1195
British Pound Sterling	0.89453	0.8508	0.87777
Algerian Dinar	135.4881	133.8916	133.6757
Angolan Kwanza	353.021	540.037	406.169
Argentine Peso	43.1593	67.2749	53.8229
Australian Dollar	1.622	1.5995	1.6109
Brazilian Real	4.444	4.5157	4.4134
Canadian Dollar	1.5605	1.4598	1.4855
Croatian Kuna	7.4125	7.4395	7.418
Egyptian Pound	20.5108	18.0192	18.8383
Ghanaian New Cedi	5.6218	6.4157	6.0158
Indian Rupee	79.7298	80.187	78.8361
Indonesian Rupee	16,500	15,595.6	15,835.27
Kazakhstan Tenge	437.52	429.51	428.79
Malaysian Ringgit	4.7317	4.5953	4.6374
Nigerian Naira	350.9425	344.3221	343.0512
Norwegian Kroner	9.9483	9.8638	9.8511
Peruvian New Sol	3.863	3.7255	3.7364
Qatari Riyal	4.1678	4.0892	4.0749
Romanian New Leu	4.6635	4.783	4.7453
Russian Rouble	79.7153	69.9563	72.4553
Saudi Arabian Riyal	4.2938	4.2128	4.198
Singapore Dollar	1.5591	1.5111	1.5273
Swiss Franc	1.1269	1.0854	1.1124

3 Accounting policies

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

Cash and cash equivalents

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

Inventories

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

Controls are made periodically on items in storage that were last purchased (ageing date) more than five years ago for the purpose of justifying maintenance in inventory or impairing them in the income statement. Moreover, for materials not considered obsolete, last purchased more than five years ago, a provision for slow moving material has been set up, with amounts which increase in percentage with ageing.

Contract assets and contract liabilities

Contract assets and liabilities from work in progress assessment are recognised on the basis of agreed contractual amounts determined with reasonable certainty with the customers, recognised in proportion to the stage of completion activity.

Given the nature of the contracts and the type of work, work progress is determined through the use of an input method based on the percentage of costs incurred with respect to the total contractually estimated costs (cost-to-cost method).

To correctly apply the economic effects of using this method on core business revenue, differences between amounts earned based on the stage of completion of projects and recognised revenue are included under contract assets from work in progress if positive, or under contract liabilities from work in progress if negative.

In assessing contract assets from work in progress, account is taken of all the costs directly attributable to the contract, in addition to contractual risks, amendments when substantially approved, any incentives provided (when attainment of the agreed levels of service is highly probable and reliably determinable) and any fees deriving from legal disputes.

Requests for additional consideration deriving from a change in contractually agreed work are included in the total amount of revenue when the customer has essentially approved the scope and/or the price of the change. At the same time, other claims

deriving, for example, from additional costs incurred for reasons attributable to the customer are included in the total amount of revenue only when the counterparty has essentially approved their scope and/or price.

Contract advances paid in foreign currency by the customer are recognised at the exchange rate on the date of payment.

Contract advances received by Saipem are part of normal operating practice; if advances recognised are of a greater percentage than that used in practice in the sector, any time value of money that leads to the presumption of a significant financial benefit granted by the customer is determined.

Property, plant and equipment

Property, plant and equipment are recognised using the cost method and stated at their purchase or production cost including any ancillary 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 for that amount of time had the investment not been made.

Revaluation of items of property, plant and equipment is not allowed, not even in application of specific laws. The exception is for property, plant and equipment which were impaired in previous years, as better explained below.

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

The costs of cyclical maintenance incurred for the purpose of obtaining periodical class certification of naval vessels are capitalised, as they have a useful life of several years (generally five years). The useful life of parts subject to cyclical maintenance (and possible replacement), and the relative depreciation schedule are coherent with the planned frequency of periodical inspections.

Depreciation of property, plant and equipment begins when the asset is ready for use, in other words when it is in the place and in the conditions necessary for it to be able to operate according to the planned manner.

Property, plant and equipment are depreciated systematically using a straight-line method over their useful life, which is an estimate of the period over which the assets will be used by the entity. When they comprise more than one significant part with different useful lives, each part is depreciated separately. The depreciable amount of an asset is its carrying amount less the estimated net disposal value at the end of its useful life, if this value is significant and can be reasonably determined. Land is not depreciated, even where purchased with a building. Property, plant and equipment held for sale are not depreciated either (see "Assets held for sale and discontinued operations"). Changes to depreciation methods related to a review of the expected useful life of an asset, the net residual value or the expected pattern of consumption of the future economic benefits embodied in an asset are recognised in the income statement in the year they occur.

All parts of the vessels are depreciated over the same useful life as determined on the basis of independent appraisal by technical experts. The decision to consider the same useful life for all parts of the vessels is based on the fact that the main parts are subject to periodical activities of cyclical maintenance.

Cyclical maintenance carried out near the end of the useful life of a vessel extends its life (and thus require reprogramming of depreciation on the residual value) for as long as the useful life of the last cyclical maintenance.

Replacement costs of identifiable parts in complex assets are capitalised and depreciated over their useful life. The residual carrying amount of the part that has been replaced is taken to the income statement.

Improvements to leased assets are depreciated over the useful life of the improvements or, if shorter, over the residual lease term, taking into account the possible period of renewal if the renewal depends only on the lessor and is theoretically certain. Ordinary maintenance and repair expenses, not including the replacement of identifiable parts and that restore but do not increase the performance of the assets, are charged to the income statement for the year in which the expenses are incurred.

When events occur that indicate an impairment of property, plant and equipment, their recoverability is assessed by comparing their carrying amount with the relative recoverable amount represented by the higher of the fair value less costs to sell and the value in use. The assessment is carried out for each cash-generating unit (CGU) corresponding to a single asset or to the smallest identifiable group of assets that generates independent cash inflows from their continuous use.

Value in use is determined by discounting to present value the expected cash flows from the use of the CGU and, if significant and reasonably determinable, from its disposal at the end of its useful life, net of costs to sell. Expected cash flows are determined, taking also into account actual results, on the basis of reasonable and documented assumptions that represent the best estimate of the future economic conditions during the remaining useful life of the CGU, giving more importance to independent assumptions while taking into account the specificities of Saipem's business. Discounting is carried out at a rate that reflects current market assessments of the time value of money and the risks specific to the asset that are not reflected in the estimate of future cash flows. Please note that where appropriate, the specific incremental component of so-called "country risk" is included in the estimate of expected cash flows. Specifically, the discount rate used is the Weighted Average Cost of Capital (WACC) defined on the basis of the Capital Asset Pricing Model (CAPM) methodology. Following the adoption of the new strategic approach and the resulting change to the organisational model (approved by the Board of Directors in July 2018), the WACC is estimated for the specific business segments to which the single CGUs belong.

Value in use is determined using post-tax cash flows, discounted at a post-tax discount rate as this method produces outcomes which are equivalent to those resulting from discounting pre-tax cash flows at a pre-tax discount rate deriving, through an iteration process, from a post-tax valuation.

In absence of impairment indicators and, at the same time, in presence of indicators suggesting that the reasons for past impairment ceased to exist, the impairment loss is reversed to the income statement as income from revaluation (reversal of impairment loss). The value of the asset is written back to the lower of the recoverable amount and the original carrying amount before previous impairment losses, less the depreciation rates that would have been charged had no impairment loss been recognised.

Property, plant and equipment are derecognised 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.

Property, plant and equipment destined for specific operating projects, for which no further future use is envisaged due to the characteristics of the assets themselves or the high usage sustained during the execution of the project, are depreciated over the duration of the project.

Intangible assets

Intangible assets are identifiable assets without physical substance, controlled by the entity and capable of producing future economic benefits, and goodwill. An intangible asset is identifiable when it can be distinguished from goodwill. This condition is normally met when: (i) the intangible asset arises from legal or contractual rights, or (ii) the asset is separable, i.e. can be sold, transferred, licenced, rented or exchanged, either individually or as an integral part of other assets. An entity controls an intangible asset if it has the power to obtain the future economic benefits deriving from the asset and to restrict the access of others to those benefits. Intangible assets are stated at purchase or production cost as determined with the criteria used for property, plant and equipment.

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

Intangible assets with a finite useful life are amortised systematically over their useful life, which is an estimate of the period over which the assets will be used by the entity. The amount to be amortised and the recoverability of their carrying amount are determined in accordance with the criteria described in the section "Property, plant and equipment".

Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying amount is tested at least annually and whenever events occur indicating a reduction in their value.

Goodwill is tested for impairment at the level of the CGU to which goodwill relates. The CGU is the smallest group of assets (including goodwill itself) that generates cash inflows and outflows that are largely independent of the cash flows from other assets or groups of assets and on the basis of which the Top Management assesses the profitability of the business. If the carrying amount of the CGU, including goodwill allocated thereto, determined by taking into account any impairment of current and non-current assets that are part of the CGU, exceeds the CGU's recoverable amount¹⁰, 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 amount of the other assets with a finite useful life that form the CGU. Impairment losses on goodwill may not be reversed¹¹.

Intangible assets are derecognised 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.

Leases

IFRS 16 requires that at inception of a contract, an entity has to assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 defines a single model of recognition of lease contracts based on the recognition by the lessee of a "Right-of-Use" asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments provided by the contract ("lease liability").

The "Right-of-Use" asset at the commencement date, the date on which the asset is made available for use, is initially measured at cost and derives from the sum of the following components:

- > the initial measurement of the "lease liability";
- > any lease payments made at or before the commencement date, less any lease incentives received;
- > any initial direct costs incurred by the lessee;
- > the estimate of the costs that the lessee expects to incur for the dismantling and removal of the underlying asset and for the restoration of the site in which it is located or for the restoration of the underlying asset to the conditions required by the terms and conditions of the lease.

After initial recognition, the "Right-of-Use" asset is reduced by any accumulated depreciation, any accumulated impairment losses and the effects associated with any remeasurement of the "lease liability".

Depreciation rates are constant and are applied over the lease term, taking into account renewal/termination options which are highly probable for the year. Only if the lease provides for the reasonably certain exercise of purchase option is the Right-of-Use asset depreciated systematically over the useful life of the underlying asset.

IFRS 16 requires that, in the presence of sublease contracts, the lessee as an intermediate lessor must classify the sub-lease as an operating lease if the head lease is short-term, recognising the relative revenue in the income statement. Otherwise, it must be classified with reference to the Right-of-Use asset deriving from the head lease, rather than making reference to the underlying asset, or with reference to the duration of the sublease contract: if it covers most or all of the duration of the head lease, the sublease must be considered to be a finance lease, accounting for a receivable to replace, totally or partially, the "Right-of-Use" asset arising from the head lease.

On the basis of IFRS 16, a "lease liability" is initially measured at the present value of the lease payments not yet made at the commencement date, which include:

- > fixed payments that will be paid with reasonable certainty, less any lease incentives receivable;

(10) For the definition of recoverable amount see "Property, plant and equipment".

(11) Impairment losses reported for an interim period are not reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed based on the conditions of a subsequent interim period.

- > variable payments due that depend on an index or a rate (variable payments such as fees based on the use of the leased asset, are not included in the lease, but are recognised in the income statement as operating costs over the lease term);
- > any amounts that are expected to be paid under residual value guarantees;
- > the exercise price of the purchase option, if the lessee is reasonably certain to exercise this option;
- > payments of penalties for termination of the lease, if the lessee is reasonably certain to exercise this option.

The present value of the aforementioned lease payments is calculated by adopting a discount rate equal to the interest rate implicit in the lease or, if this is not readily determined, using the incremental borrowing rate of the lessee. The incremental borrowing rate of the lessee is defined by taking into account the intervals and duration of the payments provided for in the lease contract, the currency in which they are denominated and the characteristics of the lessee's economic environment.

After initial recognition, the lease liability is measured at amortised cost (i.e. increasing its carrying amount to take into account the interest on the liability and decreasing it to take into account the payments made) using the effective interest rate and is remeasured as an adjustment to the related "Right-of-Use" asset, to take into account any changes to the lease following contractual renegotiations, changes in indices or rates, changes relating to the exercise of contractually envisaged options for renewal, early withdrawal or purchase of the leased asset.

The new standard eliminates, for the lessee, the classification of leases as operating or finance, with limited exemptions (recognition of the lease payments as an expense on a straight-line basis for leases that qualify as "short term" or "low value").

For the lessor's financial statements, the distinction between operating and financial leases is maintained.

The impact deriving from the first-time adoption of the new IFRS 16 "Leases" on the accounting policies applied by the Saipem Group is indicated in the note "Changes to standards".

Costs of technological development activities

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

- (a) that it has the technical capacity to complete the intangible asset and use it or sell it;
- (b) that it has the intention to complete the intangible asset and make it available for use or sale;
- (c) that it has the ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits;
- (e) that the technical, financial and other resources are available to complete development of the intangible asset and use it or sell it;
- (f) that it can reliably measure the expenditure attributable to the intangible asset during its development.

Grants

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 the required conditions attached to them will be met.

Grants related to income are recognised in the income statement over the periods necessary to match them with the related costs which they are intended to compensate.

Financial assets

Based on the characteristics of the instrument and on the business model adopted in their management, financial assets are classified as follows: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value through other comprehensive income (hereinafter also OCI); (iii) financial assets measured at fair value through profit or loss.

The initial recognition is made at fair value; trade receivables that do not contain a significant financing component, are initially measured at their transaction price.

Subsequent to initial recognition, the financial assets that generate contractual cash flows that are solely payments of principal and interest are measured at the amortised cost if the financial assets are held within a business model whose objective is to hold assets to collect contractual cash flows (so-called "hold to collect" business model).

The application of the amortised cost method requires the recognition in the income statement of the interest income, determined on the basis of the effective interest rate, of the exchange differences and of any possible impairment losses¹² (see section "Impairment of financial assets").

On the other hand, financial assets representative of debt instruments whose business model provides for the possibility of either collecting the contractual cash flows or realising the value from sale ("hold to collect and sell" business model) are measured at the fair value through "other comprehensive income" (hereafter also FVTOCI). In this case, recognition is made as follows: (i) in the income statement are recognised the interest income, calculated using the effective interest rate, the exchange differences and the impairment losses (see "Impairment of financial assets"); (ii) in equity under "Other Comprehensive Income" (OCI) is recognised the variation of fair value of the instrument. The total amount of the variations of fair value, recognised under the equity reserve that includes other comprehensive income, is reversed to the income statement upon derecognition of the instrument.

A financial asset representative of a debt instrument which has not been evaluated at the amortised cost or at FVTOCI is measured at fair value through profit or loss (hereafter FVTPL); financial assets held for trading pertain to this category. Accrued interest income on financial assets held for trading is included in the total fair value measurement of the instrument and is recognised as "Financial income (expense)".

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

Impairment losses on financial assets

The assessment of the recoverability of financial assets representative of debt instruments not measured at fair value through profit or loss is made on the basis of the so-called "expected credit loss model".

In particular, the expected credit losses are generally determined on the basis of the sum of: (i) the exposure claimed toward the counterparty net of the relative mitigations (so-called Exposure at Default or EAD); (ii) the probability that the counterparty will not fulfil its payment obligations (so-called Probability of Default or PD); (iii) the estimated percentage of the exposure that will not be recovered in the case of counterparty default (so-called Loss Given Default or LGD).

The management model adopted by the Group envisages the simplified approach for trade receivables as they do not contain a significant financing component. This approach requires the valuation of the loss allowance for an amount equal to the lifetime expected credit losses. This approach uses the probability of customer default for the quantification of expected credit losses, based on observable market data and on assessments collected by info-providers. Alongside the allocations made to the loss allowance after reviewing each past due receivable, which effectively already discounts a prospective view of the projects, an assessment is made of the customer's creditworthiness. This assessment is performed at corporate level on the portfolio of performing exposure and on exposures that are past due by no more than twelve months and is communicated to the companies to enable them to quantify and recognise the effects in their interim reporting.

Specifically, the Saipem model operates as follows:

- > the Exposure at Default (EAD) of Saipem includes trade receivables (including allocations) and contract assets related to the recognition of work in progress and considers the effects of mitigation capable of reducing the exposure (debit items that can be used to compensate, advance payments, etc.), excluding in particular disputed receivables from the calculation as they are subject to specific technical-legal valuations. Receivables of a financial nature (securities and bonds held by the Group and measured at amortised cost), as well as cash on hand, are also included in the assessment;
- > with regard to identification of the time of Default, the methodology determines it conventionally as the shorter between the date on which the customer's insolvency is declared and the term of 365 days from the receivable due date. This term is consistent with the dynamics of the active business cycle of contract works in which Saipem operates;
- > the Probability of Default (PD) is calculated on the observable market data (credit spread on bond issues, Credit Default Swaps, etc.) gathered by qualified info-providers. It is considered equal to 100% at the time of Default;
- > to quantify the Loss Given Default (LGD), the approach applied is based on the market standards which consider the Recovery Ratio (RR) 40% of the exposure; it follows that the LGD is calibrated at $(100\% - RR)$ that is $(100\% - 40\%) \rightarrow 60\%$.

Trade receivables and other assets are presented in the statement of financial position net of the relative loss allowance. Impairment losses on these assets are recognised in the income statement, net of any impairment gains, under "Net reversals of impairment losses (impairment losses) on trade receivables and other assets".

Non-controlling interests

Financial assets representing non-controlling interests, as they are not held for purposes of trading, are measured at fair value through other comprehensive income, without providing for their release to the income statement in case of sale; on the other hand, any dividends deriving from those investments are recognised in profit or loss in the caption "Gains (losses) on equity investments". Measurement at cost of non-controlling interests is permitted in the limited cases in which the cost is an adequate estimate of the fair value.

Derivatives and hedge accounting

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

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

Consistently with the economic reason for purchasing the coverage, Saipem classifies derivatives as hedging instruments whenever possible. The fair value of derivative financial instruments incorporates the adjustments that reflect the non-performance risk of the counterparties of the transaction (see next section "Fair value measurement"). In particular, the Group companies enter into the intragroup derivatives with Saipem Finance International BV (SAFI) with the objective of hedging the currency risk arising from future and highly probable revenue and costs in foreign currency. SAFI, in turn, in an operational optimisation perspective, performs a role of consolidation and netting of the required intragroup derivatives and proceeds with their negotiation on the market.

The intragroup derivatives negotiated by the companies with SAFI are considered cash flow hedges for highly probable forecast transactions whenever the conditions are met for the application of hedge accounting. The hedged item is recognised in the revenue and costs in the contract's currency.

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

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

When the derivatives aim to hedge the risk of changes in cash flows of the hedged item (cash flow hedge; for example hedging the variability in cash flows of assets/liabilities due to exchange rate fluctuations), the changes in the fair value of the derivatives considered effective are initially recognised in the equity reserve pertaining to the other items of comprehensive income and are

subsequently recognised in the income statement consistent with the economic effects of the hedged item. The risk of cash flow variations is generally associated with a recognised asset or liability (such as future payments of debts at variable rates) or future collections and disbursements deemed highly probable (so-called "highly probable forecast transactions") such as cash flows connected with contract revenue and costs.

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

Assets held for sale and discontinued operations

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

Non-current assets held for sale, current and non-current assets included within disposal groups and liabilities directly associated with them are recognised in the statement of financial position separately from the entity's other assets and liabilities.

Immediately prior to classification as being held for sale, the assets and liabilities included within a disposal group are measured according to the accounting policies 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, measurement is the lower value of the carrying amount which derives from the application of the equity method at the date of reclassification and fair value. Any retained portion of the investment that has not been classified as held for sale continues to be 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 "Non-controlling interests", unless it, in relation to its classification, continues to be accounted 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 previous impairment losses, including those recognised prior to qualification of the asset as held for sale.

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

When events occur that make it impossible to classify the non-current assets or groups being disposed of as held for sale, they are reclassified in the respective items of the statement of financial position and recognised at the lesser between: (i) the carrying amount at the time of classification as held for sale, adjusted by the amortisation, depreciation, impairment losses and reversals of impairment losses that would be reported if the assets or group being disposed of had not been qualified as held for sale; and (ii) the recoverable amount at the time of reclassification. Likewise, in case of interruption of the plan of sale, recalculation of the values from the time of classification as held for sale/discontinued operation also involves the equity investments, or their shares, previously classified as held for sale/discontinued operation.

Financial liabilities

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

Offsetting of financial assets and liabilities

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

Derecognition of financial assets and liabilities

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

Provisions for risks and charges

Provisions for risks and charges relate to 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. The amount recognised for provisions represent the best estimate of the expenditure reasonably required to settle the obligation or to transfer it to third parties at the year-end 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 the costs incurred for contract

termination. The revised estimates of the provisions are assigned to the same item of the income statement previously used for the provision.

The losses expected to complete a contract are recognised in their entirety in the year in which they are considered probable and are provided for in the provisions for risks and charges.

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

In the notes to the consolidated financial statements, where required, 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 entity; (ii) present obligations arising from past events whose amount cannot be reliably measured or whose settlement will probably not require an outflow of resources embodying economic benefits.

Employee benefits

Employee benefits are the remuneration paid by the entity for the service provided by the employee or by virtue of the termination of employment.

Post-employment benefits are classified on the basis of plans, whether formal or not, as either "defined contribution plans" or "defined benefit plans", depending on their characteristics. In the first case, the entity's obligation, which only 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 recognised on an accruals basis during the employment period required to obtain the benefits.

The net interest includes the expected return on plan assets and the interest cost which are recognised in profit or loss. 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 "Financial income (expense)".

Remeasurements of the net defined benefit liability, which comprise actuarial gains (losses) arising from changes in the actuarial assumptions used or from past experience and the return on plan assets excluding amounts included in net interest, are recognised in the statement of other comprehensive income. Remeasurements of net liabilities for defined benefits, recognised in the other comprehensive income, are not subsequently reclassified to the income statement.

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

Share-based payments

Coherently with the substantial nature of retribution that it has, personnel expenses include the costs with share-based incentive plans. The cost of the incentive is calculated with reference to the fair value of the instruments attributed and to the forecast of the number of shares that will effectively be assigned; the portion applicable to the year is determined pro-rata temporis over the period to which the incentive refers (i.e. vesting period and possible co-investment period¹³), that is the period between the grant date and the vesting date.

The plans provide as conditions for the distribution of the shares the attainment of the business and/or market goals; when the assignment of the benefit is also connected to conditions other than those of the market, the estimate relative to these conditions is reflected by adjusting, over the vesting period, the number of shares expected to be effectively granted.

The fair value of the shares underlying the incentive plan is determined according to the provisions of the IFRS, particularly by IFRS 2, using models provided by info-providers and is not subject to adjustment in subsequent years. At the end of the vesting period, if the plan has not assigned shares to the participants due to failure to achieve the performance conditions, the portion of the cost pertaining to market conditions is not reversed to profit or loss.

Treasury shares

Treasury shares include those held to service share-based incentive plans and are recognised at cost and recognised as a reduction in equity. Gains or losses from any subsequent sale of treasury shares are recognised as an increase (or decrease) in equity.

Revenue from contracts with customers

The recognition of revenue from contracts with customers is based on the following five step model: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of the "stand alone" selling price of each distinct good or service; (v) recognition of the revenue when (or as) the relative performance obligation has been satisfied, i.e. at the time of transfer to the customer of the promised goods or services; the obligation is considered to have been satisfied when the customer obtains control of the goods or services, which may be satisfied over time, as in the case of contract assets from work in progress, or at a point in time. Given the nature of the contracts and the type of work, work progress is determined through the use of an input method based on the percentage of costs incurred with respect to the total contractually estimated costs (cost-to-cost method). The relative income is recognised "over time". This method is applied in particular to the contracts of the Onshore and Offshore E&C divisions.

(13) The vesting period is the period between the date of option grant and the date on which the shares are assigned. The co-investment period is the two-year period, beginning the first day after the end of the vesting period, applicable only to the beneficiaries who have been identified as strategic resources for having met performance conditions.

Relative to drilling services, the different rates contemplated contractually are "linearised" according to: (i) the different operating phases covered by the performance obligation (so-called mobilisation/operation/demobilisation phases) if contemplated contractually, regardless of the number of days of effective use of the equipment; (ii) any contract extensions, where an amendment of the price does not require stipulation of a new contract but continuation of the original one.

In the presence of contracts for the concession of licences and patents, the revenue must be recognised depending on whether it concerns the transfer of a "right of use" or of a "right of access".

In the former case, there is a performance obligation toward the customer which is satisfied upon issue, which requires recognition of the revenue "at a point in time", while in the latter case the right to access by the customer during the period of operation of the licence creates a performance obligation that is satisfied over a period of time, and the revenue is thus likewise recognised "over time".

When hedged by derivative contracts qualifying for "hedge accounting", contract revenue denominated in foreign currencies is translated at the contracted rates. Otherwise, they are translated at the exchange rate prevailing at year-end. The same method is used for any costs in a foreign currency. The allocation of revenue relative to services partially rendered are recognised for the portion matured, if it is possible to reliably determine the stage of completion and there is no significant uncertainty about the amount and existence of the income; otherwise, they are recognised within the limits of the recoverable costs incurred. Provisions for invoices to be issued, the amounts of which are contracted in a foreign currency, are entered in euro at the rate of exchange reported as of the date of ascertaining the stage of the work in progress jointly with the customer (WIP acceptance); this value is adjusted to take account of the exchange rate gain or loss accrued on the hedge that qualify as "hedge accounting".

Payments received or to be received on behalf of third parties are not considered revenues.

Expenses

Costs are recognised when relative to goods received and services rendered.

Personnel expenses comprise remuneration paid, provisions made to pension funds, accrued holidays, national insurance and social security contributions in compliance with national contracts of employment and current legislation.

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

Costs directly linked to the purchase of specific equipment and to the use of an asset on a specific project are capitalised and amortised over the duration of the project and are included in contract assets' progress.

The costs of preparation of drilling assets are recognised in the year in which the relative revenue is obtained and deferred over the duration of the project for which they are used.

Bidding costs are fully expensed in the year in which they are incurred.

Exchange 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 translated by applying the year-end exchange rate. The effect is recognised in the income statement under "Financial income (expense)". Non-monetary assets and liabilities denominated in currencies other than the functional currency measured at cost are translated at the exchange rate as at the date of initial recognition. Non-monetary assets that are measured at fair value (i.e. at their recoverable amount or realisable value) are translated at the exchange rate applicable on the date of measurement.

Dividends

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

Income taxes

Current taxes are determined on the basis of estimated taxable profit; the estimated liability is recognised in "Current tax liabilities". Income tax assets and liabilities are measured at the amount expected to be paid to/recovered from the tax authorities, using tax laws that have been enacted or substantively enacted at year end and the relative tax rates.

Deferred tax assets or liabilities are recognised for temporary differences between the carrying amounts and tax bases of assets and liabilities, based on tax rates and tax laws applicable for the years in which the temporary difference is cancelled, that have been approved or substantively approved at the closing date of the year to which the financial statements refer. Deferred tax assets are recognised when their recovery is considered probable. The recoverability of deferred taxes is considered probable when it is expected that sufficient taxable profit will be available in the year in which the temporary differences reverse against which deductible temporary differences can be utilised. Similarly, unused tax assets and deferred tax assets on tax losses are recognised to the extent that they can be recovered. The recoverability of deferred tax assets is assessed periodically, i.e. at least once a year.

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

For temporary differences associated with investments in subsidiaries, associates and joint arrangements, deferred tax liabilities are not recognised 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 recognised 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".

The effects of uncertain tax treatment with a risk probability are recognised as income tax assets or liabilities. When the results of transactions are recognised directly in equity, relative current taxes, deferred tax assets and liabilities are also charged to equity.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction that is not a forced sale, liquidation sale or a distressed sale between independent, knowledgeable and willing 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 that the transaction to sell the asset or transfer the liability occurs in the principal market or, in the absence of a principal market, in the most advantageous market to which the entity has access, regardless of the entity's intent to sell the asset or transfer the liability.

When the market price is not directly observable and a price for an identical asset or liability is not observable, the fair value is calculated by applying another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Since fair value is a market-based measurement, it is determined by adopting the assumptions that market participants would use to determine the price of the asset or liability, including assumptions about risks. As a result the intention to hold an asset or settle a liability (or to fulfil otherwise) is not relevant for the purposes of fair value measurement.

Fair value measurements of non-financial assets take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant 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 financial instruments is determined considering the credit risk of the counterparty of a financial asset (so-called "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 available quoted market prices, valuation techniques appropriate in the circumstances are used to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Statement of financial position¹⁴

Items of the statement of financial position are classified as current and non-current. Items of the income statement are presented by nature¹⁵.

The statement of comprehensive income shows the profit or loss together with income and expenses that are recognised directly in equity in accordance with specific provisions of IFRS.

The statement of changes in equity includes comprehensive profit (loss) for the year, owners transactions and other changes in equity.

The statement of cash flow is prepared using the "indirect method", whereby the profit for the year is adjusted for the effects of other non-monetary items.

Changes to accounting standards

Compared to what is indicated in the 2018 Annual Report, to which reference should be made, there have been no changes in the standards implemented by Saipem, except for what is stated below.

IFRS 16 "Leases", which became effective from January 1, 2019, introduced the amendments illustrated above in the paragraph "Basis of presentation" and repeated here.

The new standard requires the lessee to recognise:

- in the statement of financial position: (i) the Right-of-Use assets, recognised by Saipem in the specific item "Right-of-use assets" separate to property, plant and equipment, and intangible assets, and divided by class of asset in the Notes to the financial statements, and receivables related to finance subleases recognised by Saipem in the specific item "Lease assets"; (ii) the financial liabilities relating to the obligation to make the payments envisaged by the contract, recorded by Saipem in the specific item "Lease liabilities", dividing the amount between the non-current and current portions;
- in the income statement: depreciation of the Right-of-Use assets (under operating expenses) divided by class of asset in the Notes to the financial statements and interest expense accrued on the lease liability (in the financial section) if not subject to capitalisation (with respect to the operating lease payments recognised among the operating costs based on the previous IAS 17) giving separate evidence of these in the Notes. The income statement also includes the lease payments that meet short-term and low-value requirements and variable payments linked to the use of assets, not included in determining the Right-of-Use assets/lease liability;
- the following effects are presented in the statement of cash flows: (a) a change in the net cash flows from operating activities that will no longer include the lease payments, but the disbursements for interest paid on the lease liability not subject to

(14) The statement of financial position has the same structure as that used in the 2018 Annual Report, with the exception of the impacts connected with the application, in force from January 1, 2019, of the new accounting standard IFRS 16 "Leases", as indicated hereafter in the paragraph entitled "Changes to standards".

(15) Information regarding financial instruments, applying the classification required by IFRS, is provided under Note 30 "Guarantees, commitments and risks - Additional information on financial instruments".

capitalisation; (b) a change in the net cash flows from investing activities, that will no longer include the payments relative to leases capitalised under property, plant and equipment and intangible assets, but only the disbursements for interest paid on the lease liability subject to capitalisation; (c) a change in the net cash flow from financing activities that will receive the disbursements connected with repayment of the principal amount of the lease liability.

The application of the new standard has had a significant impact on the Group's financial position, financial performance and cash flows as a result:

- (i) an increase in non-current assets for the Right-of-Use assets;
- (ii) an impact on the net financial debt, deriving from the increase in financial liabilities for lease liabilities;
- (iii) an increase in EBITDA, and to a lesser extent EBIT, due to the cancellation of lease payments previously included in operating costs, and a simultaneous increase in depreciation;
- (iv) a marginal variation in net profit due to the recognition of the financial expense;
- (v) an improvement in net cash flows from operating activities that no longer include payments for non-capitalised lease payments, but disbursements for interest expense on lease liabilities not subject to capitalisation;
- (vi) a worsening in the net cash flows from financing activities which includes the disbursements related to the repayment of the lease liabilities.

For details, see the specific sections of the "Directors' Report" and the "Notes to the consolidated financial statements" that summarise the effects deriving from the first-time adoption of the new standard.

The main contracts relating to leased assets linked to specific categories of assets that concern most of the companies in the Group are as follows:

- > vessels for the performance of projects by the Offshore Engineering & Construction Division;
- > lease contracts for real estate;
- > industrial areas and construction yards in support of the projects of the Onshore Engineering & Construction Division;
- > vehicles and office machines.

The complexity of the contracts, as well as their multi-year duration required the exercise of a complex professional judgement by management to define the assumptions to be adopted for the purpose of determining the impacts connected with the new provisions of the standard. In particular, the main assumptions adopted concerned:

- > the evaluation of the periods covered by extension options or early termination for the purpose of determining the duration of the lease;
- > the identification of variable payments and their characteristics for the purposes of estimating the inclusion, or not (pursuant to the provisions of IFRS 16, variable payments linked to the use of the asset or turnover are charged to the income statement and therefore they do not participate in the determination of the lease liability/Right-of-Use asset), in the determination of the lease liability and the Right-of-Use asset;
- > the discount rate used to determine the lease liability, represented by the lessee's incremental borrowing rate. This rate was defined taking into account the duration of the leases, the currency in which they are denominated and the characteristics of the economic environment in which the lessee operates. The present value of payments owed on a lease is determined by using a discount rate that reflects the incremental borrowing rate of Saipem and is defined on the basis of the euro benchmark zero coupon yield curve adjusted for Saipem risk. The rate is determined also taking account of the risk related to the currency of denomination and duration of the underlying contract.

The adoption of IFRS 16 led to the recognition of the Right-of-Use assets and lease liabilities as at January 1, 2019 of €547 million. Based on business considerations, renewal options for vessels of the Offshore Engineering & Construction Division and properties, for €270 million, have not been considered in determining the overall duration of the contracts and in determining the lease liability as of January 1, 2019.

The first time it applied the new standard, Saipem:

- > applied the so-called "modified retrospective approach", recognising the effect connected to the retrospective recalculation of opening equity as of January 1, 2019, without restating the comparative figures;
- > availed itself of the practical expedient consisting of not applying IFRS 16 to leases for which the residual term as of January 1, 2019, is less than 12 months, for all types of assets;
- > considered as leases all contracts classifiable as such based on IFRS 16 without applying the "grandfathering" expedient (the possibility not to review every contract existing as of January 1, 2019, applying IFRS 16 only to those contracts previously identified as leases based on IAS 17 and IFRIC 4);
- > recognised a Right-of-Use asset equal to the lease liability adjusted, where necessary, to take into account any prepaid expenses for advances and without considering the initial direct costs incurred in years prior to January 1, 2019.

Furthermore:

- > the lease liability was recognised at the present value of the lease payments, discounted using Saipem's incremental borrowing rate in effect at January 1, 2019; variable payments linked to the use of an asset have not been included in the lease liability/Right-of-Use asset of the asset but have been recognised, pursuant to the provisions of IFRS 16, in the income statement as costs for the period;
- > the options of renewal or advance termination were analysed, where present, in order to determine the overall duration of the contract.

The following is a reconciliation between the amount of minimum future payments due for non-cancellable operating leases as at December 31, 2018 (based on IAS 17) and the opening balance of the "lease liability", not discounted, as of January 1, 2019 (based on IFRS 16):

(€ million)

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

With respect to contracts for services stipulated by group companies, an in-depth analysis was made to identify any possible "embedded leases". The value of these elements, compared to the total volume of the contracts, was found to be negligible.

For the purposes of drafting the Annual Report as of December 31, 2019, in performing the impairment test on assets held on lease, Saipem includes the effects of application of IFRS 16. Consequently: (i) discount rates were used that reflect the financial leverage provided by the leasing contracts; (ii) the Right-of-Use was included in tested net capital employed; (iii) the Value in Use was calculated excluding the relative leasing rates.

With regard to IFRS 9 "Financial Instruments" in force since January 1, 2018, as indicated in the 2018 Annual Report to which reference is made, with regard to the new provisions on hedge accounting, certain areas of optimisation in the management of strategies have been identified in light of the innovations and simplifications introduced by the standard. Following the analyses carried out, a new hedge accounting management model was defined, fully adopted starting from January 1, 2019, focused on the coverage of net positions.

With Regulation No. 2018/1595, issued by the European Commission on October 23, 2018, IFRIC 23 "Uncertainty Over Income Tax Treatments" was approved which provides indications on how to consider the uncertainties on specific tax treatments used by the entity in applying tax legislation (for example, tax treatments adopted for the issue of transfer prices that could be challenged by the tax authorities, or uncertainties regarding the period of deduction of tax depreciation of specific assets). The likelihood of the tax authorities accepting the entity's tax treatment and whether to consider the uncertainty in itself or in relation to the general tax burden of the entity should be verified. To do this, the entity should report and assess its income tax assets or liabilities, applying the requisites detailed in IAS 12.

The indications of IFRIC 23 have led to a reclassification from the provisions for taxes to non-current tax liabilities, as reported in these Notes.

Other standards and interpretations in force from January 1, 2019

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

With Regulation No. 2019/237, issued by the European Commission on February 8, 2019, the amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures", were approved. They are aimed at clarifying that the provisions of IFRS 9, including those relating to impairment, also apply to the financial instruments representing long-term interests in an associate or joint venture which, in substance, form part of the net investment in the associate or joint venture (so-called long-term interest).

Consequently, the loan assets granted to the investees, accounted for using the equity method, fall within the scope of IFRS 9. As of January 1, 2019, the loan assets granted to the investees, as detailed above, are subject to a dual test of recoverability that provides first for calculation of the expected credit losses (ECL) and then for verification of the recoverability of the credit exposure, according to the procedure established by IFRS 9.

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

With Regulation No. 2019/412, issued by the European Commission on March 14, 2019, the document "Annual Improvements to IFRS Standards 2015-2017 Cycle" was approved. It essentially consists of changes of a technical and editorial nature to some international accounting standards.

The amendments described above had no impact on the Group.

Financial risk management

The main financial risks that Saipem is facing and, as detailed below, monitoring and actively managing are the following:

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

Financial risks are managed in accordance with Guidelines defined by the group, 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 exchange rates, interest rates or commodity prices will adversely affect the value of the Group's financial assets, liabilities or expected future cash flows. Saipem actively manages market risk in accordance with the above-mentioned Guidelines and by procedures that provide a centralised model for conducting financial activities.

Market risk - Exchange rates

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

- > the profit or loss due to the different countervalue of costs and revenue denominated in foreign currency at the time of their recognition compared to the time when the price conditions were defined and as a result of the translation and subsequent measurement of trade receivables/payables or financial assets/liabilities denominated in foreign currencies;
- > the Group's reported results and equity, as the profit or loss and financial statements of subsidiaries denominated in currencies other than the euro are translated from their functional currency into euro.

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

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

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

An exchange rate sensitivity analysis was performed for those currencies other than euro which may potentially impact exchange risk exposure in 2019 was highest in order to calculate the effect on the income statement and equity of hypothetical positive and negative variations of 10% in the exchange rates.

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

- > exchange rate derivatives;
- > trade receivables and other assets;
- > trade payables and other liabilities;
- > cash and cash equivalents;
- > current and non-current financial liabilities.
- > lease liabilities.

For derivative instruments on exchange rates, the sensitivity analysis on the relative fair value is carried out by comparing the term counter-value fixed in the contracts with the counter-value determined at spot exchange rates, allowing for a 10% positive or negative variation, and adjusted using interest rate curves consistent with the expiration dates of contracts on the basis of market prices at year-end.

The analysis did not examine the effect of exchange rate fluctuations on the measurement of contract assets from work in progress assessment because they do not constitute a financial asset under IAS 32.

In light of the above, although Saipem adopts a strategy targeted at minimising exchange risk exposure through the use of various types of derivatives (outright and swaps), it cannot be excluded that exchange rate fluctuations may significantly influence the Group's results and the comparability of results of individual years.

A depreciation of the euro compared to other currencies would have produced an overall effect on pre-tax profit of -€32 million (-€62 million at December 31, 2018) and an overall effect on equity, before related tax effects, of -€192 million (-€201 million at December 31, 2018).

Appreciation of the euro compared to other currencies would have produced an overall effect on pre-tax profit of €33 million (€63 million at December 31, 2018) and an effect on equity, before related tax effects, of €193 million (€202 million at December 31, 2018).

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

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

(€ million)	2018				2019			
	Δ+10%		Δ-10%		Δ+10%		Δ-10%	
	Income statement	Equity	Income statement	Equity	Income statement	Equity	Income statement	Equity
Derivative financial instruments	(78)	(217)	79	218	(93)	(253)	94	254
Trade receivables and other assets	94	94	(94)	(94)	133	133	(133)	(133)
Trade payables and other liabilities	(99)	(99)	99	99	(92)	(92)	92	92
Cash and cash equivalents	21	21	(21)	(21)	68	68	(68)	(68)
Current financial liabilities	-	-	-	-	(8)	(8)	8	8
Non-current financial liabilities	-	-	-	-	-	-	-	-
Lease liabilities	-	-	-	-	(40)	(40)	40	40
Total	(62)	(201)	63	202	(32)	(192)	33	193

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

(€ million)	Currency	Dec. 31, 2018			Dec. 31, 2019		
		Total	Δ -10%	Δ +10%	Total	Δ -10%	Δ +10%
Receivables							
	USD	777	(78)	78	1,104	(110)	110
	KWD	100	(10)	10	108	(11)	11
	PLN	26	(3)	3	40	(4)	4
	NOK	11	(1)	1	9	(1)	1
	Other currencies	26	(2)	2	69	(7)	7
Total		940	(94)	94	1,330	(133)	133
Payables							
	USD	704	70	(70)	653	65	(65)
	GBP	52	5	(5)	63	6	(6)
	AED	28	3	(3)	30	3	(3)
	SGD	82	8	(8)	1	-	-
	NOK	17	2	(2)	18	2	(2)
	JPY	2	-	-	12	1	(1)
	AOA	9	1	(1)	6	1	(1)
	KWD	39	4	(4)	109	11	(11)
	Other currencies	56	6	(6)	29	3	(3)
Total		989	99	(99)	921	92	(92)

Market risk - Interest rate

Interest rate fluctuations influence the market value of the group's financial assets and liabilities and the level of net financial expense. The objective of risk management is to minimise the interest rate risk when pursuing financial structure objectives defined and approved by Management.

In compliance with established risk management objectives, the Finance Department of Saipem assesses, when stipulating variable rate financing, where appropriate, to enter into Interest Rate Swap (IRS) transactions in order to manage fluctuations in interest rates. Planning, coordination and management of this activity at Group level is the responsibility of the Saipem Finance Department, which closely monitors the correlation between derivatives and their underlying flows, as well as ensuring their correct accounting representation in compliance with the IFRS. Although Saipem adopts a strategy targeted at minimising its exposure to interest rate risk through the pursuit of defined financial structure objectives, 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 years.

Interest rate derivatives are measured by the Finance Department of Saipem at fair value on the basis of standard market evaluation algorithms and market prices/contributions provided by primary public info-providers. To measure the impact of interest rate risk a sensitivity analysis was performed. The analysis calculated the effect on the income statement and equity which would result from a positive and negative 100 basis point movement on interest rate levels.

The analysis was performed relating to all relevant financial assets and liabilities exposed to interest rate fluctuations and regarded in particular the following items:

- > interest rate derivatives;
- > cash and cash equivalents;
- > current and non-current financial liabilities.

For derivative financial instruments on interest rates, the sensitivity analysis on fair value was conducted by discounting the contractually expected cash flows with the interest rate curves recorded on the basis of year-end market rates, with variations in excess of and less than 100 basis points. With reference to cash and cash equivalents and to variable rate financial liabilities,

reference was made respectively to the stock at the closing of the year and to changes in exposure expected in the following 12 months. On this basis, a movement of interest rates has been applied in excess of and less than 100 basis points on interest rates. A positive variation in interest rates would have produced an overall effect on pre-tax profit of €8 million (€4 million at December 31, 2018) and an overall effect on equity, before related tax effects, of €11 million (€8 million at December 31, 2018). A negative variation in interest rates would have produced an overall effect on pre-tax profit of -€10 million (-€8 million at December 31, 2018) and an overall effect on equity, before related tax effects, of -€13 million (-€12 million at December 31, 2018).

The increase/decrease with respect to the previous year is essentially due 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 the items of the statement of financial position and income statement.

(€ million)	2018				2019			
	+100 basis points		-100 basis points		+100 basis points		-100 basis points	
	Income statement	Equity	Income statement	Equity	Income statement	Equity	Income statement	Equity
Cash and cash equivalents	8	8	(8)	(8)	11	11	(11)	(11)
Derivative financial instruments	-	4	-	(4)	-	3	-	(3)
Current financial liabilities	-	-	-	-	-	-	-	-
Non-current financial liabilities	(4)	(4)	-	-	(3)	(3)	1	1
Total	4	8	(8)	(12)	8	11	(10)	(13)

Market risk - Commodity

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

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

As regards commodity price risk management, derivative instruments on commodities were negotiated by Saipem to hedge underlying contractual commitments. Hedging transactions may also be entered into in relation to future underlying contractual commitments, provided these are highly probable (so-called highly probable forecast transactions). Despite the hedging instruments adopted by the parent to control and manage commodity risks, Saipem cannot guarantee that they will be either efficient or adequate or that in future it will still be able to use such instruments.

Commodity derivatives are measured at fair value by the Finance Department of Saipem on the basis of standard market evaluation algorithms and market prices/contributions provided by primary public info-providers.

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 equity, before related tax effects, of €3 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 equity, before related tax effects, of -€3 million.

(ii) Credit risk

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

Assessment of the recoverability of financial assets with counterparties of a trade and financial nature was made on the basis of the so-called "expected credit loss model" illustrated in the paragraph entitled "Impairment losses on financial assets".

(iii) Liquidity risk

The evolution of working capital and of financial requirements is strongly influenced by the invoicing time frames for contract assets from work in progress assessment and the collection of the relevant receivables. Consequently, and despite the fact that the Group has implemented measures targeted at ensuring that adequate levels of working capital and liquidity are maintained, possible delays in the progress of projects and/or in the definition of situations being finalised with customers, may have an impact on the capacity and/or on the time frames for the generation of cash flows.

Liquidity risk is the risk that suitable sources of funding for the Group may not be available (funding liquidity risk), or that the Group is unable to sell its assets on the market place (asset liquidity risk), making it unable to meet its short-term finance requirements and settle obligations. Such a situation would negatively impact the Group's results as it would cause the Group to incur higher

borrowing expenses in order to meet its obligations or, under the worst of conditions, the inability of the Group to continue as a going concern. The objective of the Group's risk management is to create a financial structure which, consistent with business objectives and prescribed limits, can guarantee a level of liquidity in terms of borrowing facilities and committed credit lines sufficient for the entire Group.

At present, through the management of flexible credit lines suitable for its business requirements, Saipem believes it has access to funding that is more than adequate.

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

Saipem has credit lines and financing sources available to cover its overall financial requirements. Through the transactions carried out on the financial markets, the Group has structured its sources of funding mainly along medium to long term deadlines with an average duration equal to 2.8 years as at December 31, 2019.

At December 31, 2019, Saipem has unused committed credit lines of €1,000 million, to which can be added the availability of cash at the same date of €2,272 million.

(iv) Downgrading risk

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

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

Financial liabilities, trade payables and other liabilities

The following table shows the amounts of payments due to financial debts, including interest payments.

(€ million)	Maturity						Total
	2020	2021	2022	2023	2024	After	
Non-current financial liabilities	208	669	654	640	89	635	2,895
Current financial liabilities	164	-	-	-	-	-	164
Lease liabilities	168	148	140	97	73	71	697
Fair value of derivative instruments	38	-	-	-	-	-	38
Total	578	817	794	737	162	706	3,794
Interest on loans and borrowings	73	71	55	39	17	17	272

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

(€ million)	Maturity			Total
	2020	2021-2024	After	
Trade payables	2,262	-	-	2,262
Other liabilities	266	-	-	266

Outstanding contractual obligations

The table below summarises Saipem's capital expenditure commitments for projects for which procurement contracts have already been entered into.

(€ million)	Maturity
	2020
Committed on major projects	-
Other committed projects	104
Total	104

4 Accounting estimates and significant judgements

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires Management to make accounting estimates based on complex and/or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time of the estimate. 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 reporting 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 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.

REVENUE, CONTRACT ASSETS AND CONTRACT LIABILITIES

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

Beginning with the Interim Consolidated Report as of June 30, 2018 and following the adoption of the new strategic direction and the resulting change to the organisational model outlined above, the impairment test procedure of the Group's CGUs was consistently updated, modifying the process of estimating the discount rate used to estimate the value in use, providing for the determination of WACC differentiated by business segment, so as to reflect the specific risks of the individual business segments to which the tested CGUs belong.

Considering that the changes made to the methods for estimating the cost of capital are motivated and attributable to the new elements introduced following the resolution on the new strategic direction and the redefinition of the organisational structure, the refinement/updating of the impairment test procedure carried out in 2018 falls within the meaning of the "change in accounting estimates" pursuant to IAS 8. As a result, the effects of this update were applied on a forward-looking basis, beginning with the preparation of the Interim Consolidated Report as of June 30, 2018, and not retroactively.

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

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

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

For assets other than independent CGUs (i.e. Offshore E&C vessels, Offshore E&C and Onshore E&C construction yards and the drilling rigs of Onshore Drilling) and that show signs of impairment, the sustainability of the residual technical-economic life of the asset is verified to determine whether there is any need to recognise an impairment loss pursuant to IAS 16, before performing the impairment test at the level of the CGU to which it pertains.

Goodwill and other intangible assets with an indefinite useful life are not amortised. The recoverability of their carrying amount is tested at least annually and whenever events occur indicating a reduction in their value. Goodwill is also tested for impairment at the level of the CGU to which goodwill relates. If the carrying amount of the CGU, including goodwill allocated thereto, exceeds its recoverable amount, the excess is recognised as impairment. The impairment loss is first allocated to reduce the carrying amount of goodwill. Any remaining excess is allocated on a pro-rata basis to the carrying amount of the other assets with a finite useful life that form the CGU.

LEASES

Determination of the reasonable certainty of being able to exercise an extension and/or termination option or not, as contemplated by a lease contract, is the result of a process that involves complex judgements by the Management. In this connection, the reasonable certainty of being able to exercise these options is ascertained as of the commencement date, in consideration of all the facts and circumstances that generate an economic incentive to exercise them, as well as when significant events or changes in the circumstances under the control of the lessee occur, that affect the assessment previously made.

As regards the impairment test, IFRS 16 requires the lessee to include the Right-of-Use assets in the impairment test to assess any loss in value pursuant to IAS 36, similarly to the other group-owned assets.

With reference to the assessment of recoverability of the Right-of-Use asset it is necessary to consider: (i) at FTA, the maintenance of the carrying amounts based on the absence (or not) of provisions for onerous contracts relating to existing leases; (ii) the allocation to the CGUs of the Right-of-Use assets; (iii) the duration of the underlying lease with respect to the time horizon considered in the determination of the cash flows of the CGU; (iv) the value in use of a CGU that contains a Right-of-Use asset.

For purposes of drafting the 2019 Annual Report, in performing the impairment test, Saipem includes the effects of application of IFRS 16. Consequently: (i) discount rates were used that reflect the financial leverage provided by the lease contracts; (ii) the right-of-use asset was included in tested Net Capital Employed; (iii) the value in use was calculated excluding the relative lease payment.

BUSINESS COMBINATIONS

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

PROVISIONS FOR RISKS AND CHARGES

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

Determining appropriate amounts for provisions in such cases is a complex estimation process that includes subjective judgements by the Top Management.

EMPLOYEE BENEFITS

Defined benefit plans are measured with reference to uncertain events and based upon actuarial assumptions including, among others, discount rates, expected rates of salary increases, mortality rates, retirement ages and future trends in covered medical costs.

The most significant assumptions used to quantify such benefits are determined as follows: (i) discount and inflation rates reflect the rates at which the benefits could be effectively settled. These are based on the rates of return on high-quality corporate bonds (or, where there is no deep market in such bonds, on the market yields on government bonds) and on inflation rate forecasts for the countries involved or the reference currency area; (ii) the future salary levels of individual employees are determined based on inflation rate assumptions, productivity, seniority and promotion; (iii) future medical costs are determined based on elements such as past and current medical cost trends including assumptions on healthcare inflation, and changes in health status of the participants; (iv) demographic assumptions reflect the best estimate of variables such as mortality, disability and turnover for the specific population involved.

Changes in the net employee benefit liability (asset) related to remeasurements routinely occur and comprise, among other things, changes in actuarial assumptions, the effects of differences between the previous actuarial assumptions and what has actually occurred and differences in the return on plan assets with respect to the amounts included in net interest.

Remeasurements are recognised in the statement of comprehensive income for defined benefit plans and in the income statement for long-term plans.

RECEIVABLES

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

FAIR VALUE

The determination of the fair value of financial and non-financial instruments is a detailed process characterised by the use of complex methods and techniques of assessment and that requires the collection of updated information from the reference markets and/or the use of internal input data.

Like for the other estimates, determination of the fair value, although based on the best information available and on the adoption of adequate measurement methods and techniques, is intrinsically characterised by elements of uncertainty and by the exercise of professional judgement, and could generate forecasts of values different from those that will be effectively realised.

5 Recent standards, effective from 2020 and following years

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

With Regulation No. 2019/2075, issued by the European Commission on November 29, 2019, the document "Amendments to References to the Conceptual Framework in IFRS Standards" was approved. It essentially consists of changes of a technical and presentation nature to some international accounting standards aimed at incorporating the new IFRS reference framework (the Conceptual Framework for Financial Reporting), published by the IASB on March 29, 2018. The amendments are effective from January 1, 2020 or thereafter.

With Regulation No. 2019/2104, issued by the European Commission on November 29, 2019, the amendments to IAS 1 and IAS 8 regarding "Definition of Material" were approved, serving to clarify and render uniform within the IFRS and other publications the definition of materiality, in order to support the entities in the formulation of opinions on the subject. In particular, information should be considered material if its omission, erroneous presentation or concealment could presumably influence the main users of the financial statements in making decisions on the basis of those statements. The amendments to the standards indicated are effective from January 1, 2020 or thereafter.

Regulation No. 2020/34 issued by the European Commission on January 15, 2020, approved the amendments to IAS 39 "Financial instruments: recognition and measurement", to IFRS 9 "Financial instruments" and to IFRS 7 "Financial instruments: disclosures" by effect of the interbank rate reforms. The aforementioned amendments mainly concern interest rate swap transactions in cases of uncertainty concerning: (i) the reference index for calculation of interest rates designated as the hedged risk; and/or (ii) the timing or amount of the cash flows related to the reference indices for calculation of the interest rates of the hedged item or hedging instrument. The amendments to the standards indicated are effective from January 1, 2020 or thereafter.

At present Saipem believes that the amendments described above have had no significant impact on the Group.

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

On October 22, 2018, the IASB issued the amendments to IFRS 3 "Business Combinations", aimed at providing clarification on the definition of business. Specifically, if the contract provides for the acquisition of one (or more than one) input and of a substantial process that, together, contribute significantly to the ability to create an output, this can be defined as a business acquisition. On the contrary, lacking the set of conditions described above, the case is one of acquisition of a group of assets, which determines the capitalization of the cost of their acquisition and their depreciation based on the provisions of IAS 16. The amendments to IFRS 3 are effective for annual periods beginning on or after January 1, 2020.

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

On May 18, 2017, the IASB issued IFRS 17 "Insurance Contracts" (hereinafter IFRS 17), defining the accounting treatment of insurance contracts issued and reinsurance contracts held. The provisions of IFRS 17, which go beyond those currently provided by IFRS 4 "Insurance Contracts", are effective for annual periods beginning on or after January 1, 2023.

Saipem is currently assessing the possible impacts of the new standard on the Group.

6 Consolidation scope at December 31, 2019

Parent company

Company	Registered office	Currency	Share/quota capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle
Saipem SpA	San Donato Milanese	EUR	2,191,384,693	Eni SpA	30.54		
				CDP Industria SpA	12.55		
				Saipem SpA	1.46		
				Third parties	55.45		

Subsidiaries

Italy

Company	Registered office	Currency	Share/quota capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle
Denuke Scarl	San Donato Milanese	EUR	10,000	Saipem SpA Third parties	55.00 45.00	55.00	F.C.
International Energy Services SpA	San Donato Milanese	EUR	50,000	Saipem SpA	100.00	100.00	F.C.
Saipem Offshore Construction SpA	San Donato Milanese	EUR	20,000,000	Saipem SpA	100.00	100.00	F.C.
Servizi Energia Italia SpA	San Donato Milanese	EUR	20,000,000	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	Co.
SnamprogettiChiyoda sas di Saipem SpA	San Donato Milanese	EUR	10,000	Saipem SpA Third parties	99.90 0.10	99.90	F.C.

Outside Italy

Andromeda Consultoria Tecnica e Representações Ltda	Rio de Janeiro (Brazil)	BRL	20,494,210	Saipem SpA Snamprogetti Netherlands BV	99.00 1.00	100.00	F.C.
Boscongo SA	Pointe-Noire (Congo)	XAF	1,597,805,000	Saipem SA	100.00	100.00	F.C.
ER SAI Caspian Contractor Llc	Almaty (Kazakhstan)	KZT	1,105,930,000	Saipem International BV Third parties	50.00 50.00	50.00	F.C.
ERS - Equipment Rental & Services BV	Amsterdam (Netherlands)	EUR	90,760	Saipem International BV	100.00	100.00	F.C.
European Maritime Construction sas	Montigny le Bretonneux (France)	EUR	1,000	Saipem SA	100.00	100.00	F.C.
Global Petroprojects Services AG	Zurich (Switzerland)	CHF	5,000,000	Saipem International BV	100.00	100.00	F.C.
Moss Maritime AS	Lysaker (Norway)	NOK	40,000,000	Saipem International BV	100.00	100.00	F.C.
North Caspian Service Co	Almaty (Kazakhstan)	KZT	1,910,000,000	Saipem International BV	100.00	100.00	F.C.
Petrex SA	Lima (Peru)	PEN	992,519,045	Saipem International BV	100.00	100.00	F.C.
PT Saipem Indonesia	Jakarta (Indonesia)	USD	372,778,100	Saipem International BV Third parties	99.99 0.01	99.99	F.C.
SAGIO - Companhia Angolana de Gestão de 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, J.O. = joint operation, E.M. = equity method, Co. = cost method.

(**) In liquidation.

Company	Registered office	Currency	Share/quota capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle
Saimexicana SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	5,341,669,200	Saipem SA	100.00	100.00	F.C.
Saipem (Beijing) Technical Services Co Ltd	Beijing (China)	USD	1,750,000	Saipem International BV	100.00	100.00	F.C.
Saipem (Malaysia) Sdn Bhd	Kuala Lumpur (Malaysia)	MYR	61,033,500	Saipem International BV Third parties	41.94 58.06 ^(a)	100.00	F.C.
Saipem (Nigeria) Ltd	Lagos (Nigeria)	NGN	259,200,000	Saipem International BV Third parties	89.41 10.59	89.41	F.C.
Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	Caniçal (Portugal)	EUR	299,278,738	Saipem International BV	100.00	100.00	F.C.
Saipem America Inc	Wilmington (USA)	USD	1,000	Saipem International BV	100.00	100.00	F.C.
Saipem Argentina de Perforaciones, Montajes y Proyectos Sociedad Anónima, Minera, Industrial, Comercial y Financiera ^(**) ^(***)	Buenos Aires (Argentina)	ARS	1,805,300	Saipem International BV Third parties	99.90 0.10	99.90	E.M.
Saipem Asia Sdn Bhd	Kuala Lumpur (Malaysia)	MYR	8,116,500	Saipem International BV	100.00	100.00	F.C.
Saipem Australia Pty Ltd	West Perth (Australia)	AUD	566,800,001	Saipem International BV	100.00	100.00	F.C.
Saipem Canada Inc	Montreal (Canada)	CAD	100,100	Saipem International BV	100.00	100.00	F.C.
Saipem Contracting Algérie SpA	Algiers (Algeria)	DZD	1,556,435,000	Sofresid SA	100.00	100.00	F.C.
Saipem Contracting Netherlands BV	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV	100.00	100.00	F.C.
Saipem Contracting Nigeria Ltd	Lagos (Nigeria)	NGN	827,000,000	Saipem International BV Third parties	97.94 2.06	97.94	F.C.
Saipem do Brasil Serviços de Petróleo Ltda	Rio de Janeiro (Brazil)	BRL	2,030,796,299	Saipem International BV	100.00	100.00	F.C.
Saipem Drilling Llc	Moscow (Russia)	RUB	10,000	Saipem International BV	100.00	100.00	F.C.
Saipem Drilling Norway AS	Sola (Norway)	NOK	110,000	Saipem International BV	100.00	100.00	F.C.
Saipem East Africa Ltd	Kampala (Uganda)	UGX	3,791,000,000	Saipem International BV Snamprogetti Netherlands BV	51.00 49.00	100.00	F.C.
Saipem Finance International BV	Amsterdam (Netherlands)	EUR	1,000,000	Saipem International BV Saipem SpA	75.00 25.00	100.00	F.C.
Saipem Guyana Inc	Georgetown (Guyana)	GYD	200,000	Saipem Ltd	100.00	100.00	F.C.
Saipem India Projects Private Ltd	Chennai (India)	INR	526,902,060	Saipem SA	100.00	100.00	F.C.
Saipem Ingenieria Y Construcciones SLU	Madrid (Spain)	EUR	80,000	Saipem International BV	100.00	100.00	F.C.
Saipem International BV	Amsterdam (Netherlands)	EUR	172,444,000	Saipem SpA	100.00	100.00	F.C.
Saipem Ltd	Kingston upon Thames Surrey (United Kingdom)	EUR	7,500,000	Saipem International BV	100.00	100.00	F.C.

(a) Percentage of control. The percentage of ownership including preferential shares is 99.02% held by Saipem International BV and 0.98% by non-controlling investors.

(*) F.C. = full consolidation, J.O. = joint operation, E.M. = equity method, Co. = cost method.

(**) In liquidation.

(***) Inactive throughout the year.

Company	Registered office	Currency	Share/quota capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or evaluation principle
Saipem Luxembourg SA	Luxembourg (Luxembourg)	EUR	31,002	Saipem Maritime Asset Management Luxembourg Sàrl	100.00	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 Moçambique Lda	Maputo (Moçambique)	MZN	535,075,000	Saipem SA Saipem International BV	99.98 0.02	100.00	F.C.
Saipem Norge AS	Sola (Norway)	NOK	100,000	Saipem International BV	100.00	100.00	F.C.
Saipem Offshore México SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	998,259,500	Saimexicana SA de Cv	100.00	100.00	F.C.
Saipem Offshore Norway AS	Sola (Norway)	NOK	120,000	Saipem SpA	100.00	100.00	F.C.
Saipem Romania Srl	Bucharest (Romania)	RON	29,004,600	Snamprogetti Netherlands BV Saipem International BV	99.00 1.00	100.00	F.C.
Saipem SA	Montigny le Bretonneux (France)	EUR	25,050,000	Saipem SpA	100.00	100.00	F.C.
Saipem Services México SA de Cv	Delegacion Cuauhtemoc (Mexico)	MXN	50,000	Saimexicana SA de Cv	100.00	100.00	F.C.
Saipem Singapore Pte Ltd	Singapore (Singapore)	SGD	36,090,000	Saipem SA	100.00	100.00	F.C.
Saiwest Ltd	Accra (Ghana)	GHS	937,500	Saipem SA Third parties	49.00 51.00	49.00	F.C.
Sajer Iraq Co for Petroleum Services, Trading, General Contracting & Transport Llc	Baghdad (Iraq)	IQD	300,000,000	Saipem International BV Third parties	60.00 40.00	60.00	F.C.
Saudi Arabian Saipem Ltd	Al-Khobar (Saudi Arabia)	SAR	5,000,000	Saipem International BV	100.00	100.00	F.C.
Saudi International Energy Services Ltd Co	Dhahran (Saudi Arabia)	SAR	1,000,000	International Energy Services SpA	100.00	100.00	F.C.
Sigurd Rück AG	Zurich (Switzerland)	CHF	25,000,000	Saipem International BV	100.00	100.00	F.C.
Snamprogetti Engineering & Contracting Co Ltd	Dhahran (Saudi Arabia)	SAR	10,000,000	Snamprogetti Netherlands BV	100.00	100.00	F.C.
Snamprogetti Engineering BV	Schiedam (Netherlands)	EUR	18,151	Saipem Maritime Asset Management Luxembourg Sàrl	100.00	100.00	F.C.
Snamprogetti Netherlands BV	Amsterdam (Netherlands)	EUR	203,000	Saipem SpA	100.00	100.00	F.C.
Snamprogetti Saudi Arabia Co Ltd Llc	Al-Khobar (Saudi Arabia)	SAR	10,000,000	Saipem International BV Snamprogetti Netherlands BV	95.00 5.00	100.00	F.C.
Sofresid Engineering SA	Montigny le Bretonneux (France)	EUR	1,217,783	Sofresid SA Third parties	99.99 0.01	100.00	F.C.
Sofresid SA	Montigny le Bretonneux (France)	EUR	26,454,765	Saipem SA	100.00	100.00	F.C.
Sonsub International Pty Ltd	West Perth (Australia)	AUD	13,157,570	Saipem Australia Pty Ltd	100.00	100.00	F.C.

(*) F.C. = full consolidation, J.O. = joint operation, E.M. = equity method, Co. = cost method.

Associates and jointly controlled companies

Italy

Company	Registered office	Currency	Share/quota capital	Shareholders	% owned	Saipem's consolidation (%)	Method or consolidation or evaluation principle
ASG Scarl	San Donato Milanese	EUR	50,864	Saipem SpA Third parties	55.41 44.59	55.41	E.M.
CCS JV Scarl Δ	San Donato Milanese	EUR	150,000	Servizi Energia Italia SpA Third parties	74.95 25.05	75.00	E.M.
CEPAV (Consorzio Eni per l'Alta Velocità) Due	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	59.09 40.91	59.09	E.M.
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	San Donato Milanese	EUR	51,646	Saipem SpA Third parties	50.36 49.64	50.36	E.M.
Consorzio F.S.B. Δ	Venice - Marghera	EUR	15,000	Saipem SpA Third parties	29.10 70.90	29.10	Co.
Consorzio Sapro Δ	San Giovanni Teatino	EUR	10,329	Saipem SpA Third parties	51.00 49.00	51.00	Co.
Rodano Consortile Scarl (**)	San Donato Milanese	EUR	250,000	Saipem SpA Third parties	53.57 46.43	53.57	E.M.
Rosetti Marino SpA	Ravenna	EUR	4,000,000	Saipem SA Third parties	20.00 80.00	20.00	E.M.
SCD JV Scarl Δ	San Donato Milanese	EUR	100,000	Servizi Energia Italia SpA Third parties	59.32 40.68	60.00	E.M.
Ship Recycling Scarl (***) Δ	Genoa	EUR	10,000	Saipem SpA Third parties	51.00 49.00	51.00	J.O.

Outside Italy

CCS LNG Mozambique Lda (****) Δ	Maputo (Mozambique)	MZN	150,000	Saipem International BV Third parties	33.33 66.67	33.33	E.M.
CCS Netherlands BV (****) Δ	Amsterdam (Netherlands)	EUR	300,000	Saipem International BV Third parties	33.33 66.67	33.33	E.M.
Charville - Consultores e Serviços Lda Δ	Funchal (Portugal)	EUR	5,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Gydan Lng Snc	Courbevoie (France)	EUR	9,000	Sofresid SA Third parties	15.00 85.00	15.00	E.M.
Gygaz Snc	Courbevoie (France)	EUR	10,000	Sofresid SA third parties	15.15 84.85	15.15	E.M.
Hazira Cryogenic Engineering & Construction Management Private Ltd Δ	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 Δ	Amsterdam (Netherlands)	EUR	2,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Novarctic Snc	Courbevoie (France)	EUR	9,000	Sofresid SA Soci terzi	33.33 66.67	33.33	E.M.
Petromar Lda Δ	Luanda (Angola)	USD	357,143	Saipem SA Third parties	70.00 30.00	70.00	E.M.
PSS Netherlands BV Δ	Leiden (Netherlands)	EUR	30,000	Saipem SpA Third parties	36.00 64.00	36.00	E.M.
Sabella SA	Quimper (France)	EUR	10,685,717	Sofresid Engineering SA Third parties	10.86 89.14	10.86	E.M.
SaiPar Drilling Co BV Δ	Amsterdam (Netherlands)	EUR	20,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Saipem Dangote E&C Ltd (****) Δ	Victoria Island - Lagos (Nigeria)	NGN	100,000,000	Saipem International BV Third parties	49.00 51.00	49.00	E.M.

(*) F.C. = full consolidation, J.O. = joint operation, E.M. = equity method, Co. = cost method.

(**) In liquidation.

(***) Inactive throughout the year.

Δ Jointly-controlled company.

Company	Registered office	Currency	Share/quota capital	Shareholders	% owned	Saipem's consolidation (%)	Method of consolidation or application of the principle
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 Δ	Montigny le Bretonneux (France)	EUR	20,000	Saipem SA Third parties	60.00 40.00	60.00	E.M.
Saren BV Δ	Amsterdam (Netherlands)	EUR	20,000	Servizi Energia Italia SpA Third parties	50.00 50.00	50.00	E.M.
Société pour la Réalisation du Port de Tanger Méditerranée Δ	Anjra (Morocco)	EUR	33,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
Southern Gas Constructors Ltd Δ	Lagos (Nigeria)	NGN	10,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.
Sud-Soyo Urban Development Lda (***) Δ	Soyo (Angola)	AOA	20,000,000	Saipem SA Third parties	49.00 51.00	49.00	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 Δ	Guyancourt (France)	EUR	30,000	Saipem SA Third parties	33.33 66.67	33.33	E.M.
TSGI Mühendislik İnşaat Ltd Şirketi Δ	Istanbul (Turkey)	TRY	1,651,099,950	Saipem Ingegneria Y Construcciones SLU Third parties	33.33 66.67	33.33	E.M.
TSKJ II - Construções Internacionais, Sociedade Unipessoal, Lda	Funchal (Portugal)	EUR	5,000	TSKJ - 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 Δ	London (United Kingdom)	GBP	1,000,000	Saipem International BV Third parties	50.00 50.00	50.00	E.M.

At December 31, 2019, the companies of Saipem SpA can be broken down as follows:

	Subsidiaries			Associates and jointly controlled companies		
	Italy	Outside Italy	Total	Italy	Outside Italy	Total
Subsidiaries/Joint operations and their participating interests	5	55	60	1	-	1
Consolidated companies	5	55	60	-	-	-
Companies consolidated as a joint operation	-	-	-	1	-	1
Participating interests held by consolidated companies ⁽¹⁾	1	2	3	9	27	36
Accounted for using the equity method	-	2	2	7	27	34
Accounted for using the cost method	1	-	1	2	-	2
Total companies	6	57	63	10	27	37

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

(*) F.C. = full consolidation, J.O. = joint operation, E.M. = equity method, Co. = cost method.

(***) Inactive throughout the year.

Δ Jointly-controlled company.

Changes in the consolidation scope

There were the following scope changes in the consolidation of the Group in 2019 with respect to the consolidated financial statements at December 31, 2018.

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

- > **Tecnoprojecto Internacional Projectos e Realizações Industriais SA**, previously accounted for using the cost method, was sold to third parties;
- > **Snamprogetti Netherlands BV** purchased 30% of Snamprogetti Engineering & Contracting Co Ltd;
- > **Saipem Libya LLC - SA.LI.CO. Llc**, previously consolidated, was accounted for using the cost method due to its inactivity and then removed from the Register of Companies;
- > **O2 Pearl Snc**, previously accounted for using the equity method, was removed from the Register of Companies;
- > **Smacemex Scarl**, previously consolidated, was placed into liquidation and then accounted for using the cost method due to its inactivity;
- > **CCS JV Scarl**, was established in Italy and accounted for using the cost method, and from September 1 was accounted for using the equity method;
- > **Saipem Guyana Inc**, was established in Guyana and consolidated;
- > following a capital increase, ownership of **Sabella SA**, is as follows: 10.86% held by Sofresid Engineering Sa and 89.14% by third parties;
- > **International Energy Services SpA**, was established in Italy and consolidated;
- > an interest was acquired from third parties in **Gydan Lng Snc**, with registered offices in France, and was accounted for using the equity method;
- > an interest was acquired from third parties in **Gygaz Snc**, with registered offices in France, and was accounted for using the equity method;
- > an interest was acquired from third parties in **Novarctic Snc**, with registered offices in France, and was accounted for using the equity method;
- > **Saudi International Energy Services Ltd Co**, was established in Saudi Arabia and consolidated;
- > **Sairus Llc**, previously accounted for using the equity method, was placed into liquidation and then removed from the Register of Companies;
- > **Saipon Snc**, previously consolidated as a joint operation, was accounted for using the equity method having become irrelevant;
- > **SCD JV Scarl**, with registered offices in Italy, was incorporated and accounted for using the equity method.

Changes of company names or transfers of holdings between Group companies not affecting the consolidation scope:

- > **INFRA SpA**, consolidated, has changed its name to Saipem Offshore Construction SpA;
- > **Sabella SAS**, accounted for using the equity method, changed its legal status to "Société Anonyme", and the new company name is therefore Sabella SA;
- > **SAIMEP Lda**, consolidated, has changed its name to Saipem Moçambique Lda;
- > **Saigut SA de Cv**, consolidated, has changed its name to Saipem Offshore México SA de Cv;
- > **Saipem Maritime Asset Management Luxembourg Sàrl** purchased from Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda 0.01% of Saipem Luxembourg SA.

7 Summary of the effects deriving from the first-time adoption of IFRS 16 and application of IFRIC 23

IFRS 16

The adoption of the new IFRS 16 "Leases", as reported in the basis of presentation, had the following effects as of January 1, 2019.

(€ million)	Dec. 31, 2018	Effect of adopting IFRS 16	Situation as at Jan. 1, 2019
Non-current assets	5,106	550	5,656
Net working capital	295	(3)	292
Net financial debt	1,159	547	1,706
Equity	4,036	-	4,036

The impacts of the adoption of IFRS 16 on the consolidated income statement and statement of cash flows at December 31, 2019 are shown below:

Income statement

(€ million)	Pre IFRS 16	Effect of adopting IFRS 16	Situation as at Dec. 31, 2019
Purchases, services and other costs	(6,401)	161	(6,240)
Amortisation/depreciation and impairment losses	(541)	(149)	(690)
Operating profit	444	12	456
Financial expense	(617)	(26)	(643)
Profit (loss)	112	(14)	98

Statement of cash flows

(€ million)	Pre IFRS 16	Effect of adopting IFRS 16	Situation as at Dec. 31, 2019
Net cash flows from operating activities	1,130	127	1,257
Free cash flow	760	127	887
Net cash flows from financing activities	49	(127)	(78)
Net cash flows for the period	598	-	598

IFRIC 23

The adoption of IFRIC 23 "Uncertainty over Income Tax Treatments", as indicated in the basis of presentation, led to the following reclassifications as of January 1, 2019:

Statement of financial position

(€ million)	Dec. 31, 2018	Effect of adopting IFRIC 23	Situation as at Jan. 1, 2019
Current tax liabilities	46	(1)	45
Provisions for risks and charges	330	(26)	304
Non-current tax liabilities	-	27	27

8 Cash and cash equivalents

Cash and cash equivalents amounted to €2,272 million, an increase of €598 million compared with December 31, 2018 (€1,674 million).

Cash and cash equivalents at the end of the year, denominated in euros for 56%, US dollars for 24% and other currencies for 20%, were found to be remunerated at an average rate of 0.21%. Cash and cash equivalents included cash and cash on hand of €2 million (€2 million at December 31, 2018).

In the year, due to the continuation of the proceedings in Algeria ("Sonatrach 1 investigation"), the amount of two frozen bank accounts of the subsidiary Saipem Contracting Algérie SpA for an amount of €68 million (€72 million before discounting), was reclassified from cash and cash equivalents to other non-current financial assets.

Cash at the end of the year included: (i) cash and cash equivalents of €351 million in current accounts of projects executed in partnership or joint venture; (ii) cash and cash equivalents of €84 million in current accounts denominated in currencies subject to movement and/or convertibility restrictions; (iii) cash and cash equivalents amounting to €4 million in current accounts frozen or subject to restrictions for a total of €439 million.

The breakdown of cash and cash equivalents of Saipem and other Group companies at December 31, 2019 by geographical segment (based on the country of domicile of the relevant company) was as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Italy	973	1,194
Rest of Europe	88	205
CIS	15	16
Middle East	158	242
Far East	100	207
North Africa	81	2
Sub-Saharan Africa	25	36
Americas	234	370
Total	1,674	2,272

9 Financial assets measured at fair value through OCI

Financial assets measured at fair value through OCI amounted to €87 million (€86 million at December 31, 2018) and were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Securities for non-operating purposes		
Listed bonds issued by sovereign states/supranational institutions	22	19
Listed bonds issued by industrial companies	64	68
Total	86	87

Listed bonds issued by sovereign states/supranational institutions at December 31, 2019 of €19 million were as follows:

(€ million)	Notional amount	Fair value	Nominal rate of return (%)	Maturity	Standard & Poor's rating classification
Fixed rate bonds					
France	3	3	2.50	2020	AA
Ireland	4	4	5.00	2020	AA-
Poland	6	7	3.75-4.50	2022-2023	A
Other	5	5	2.50-2.50	2020	A
Total	18	19			

Listed bonds issued by industrial companies at December 31, 2019 of €68 million were as follows:

(€ million)	Notional amount	Fair value	Nominal rate of return (%)	Maturity	Standard & Poor's rating classification
Fixed rate bonds					
Listed bonds issued by industrial companies	65	68	0.00-6.25	2020-2028	AA/BBB+
Total	65	68			

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

Listed bonds issued by sovereign states/supranational institutions and by industrial companies held by the Group fall within the scope of analysis for the determination of expected losses.

Given the high creditworthiness of the issuers (investment grade) the impact of expected losses on the bonds in question at December 31, 2019 is irrelevant.

10 Other financial assets

Other current financial assets

Other current financial assets of €180 million (€34 million at December 31, 2018) consist of the following:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Loan assets for operating purposes	2	2
Loan assets for non-operating purposes	32	178
Total	34	180

Loan assets for operating purposes of €2 million (€2 million at December 31, 2018) were related to receivables held by Saipem SpA from Serfactoring SpA.

Loan assets for non-operating purposes of €178 million (€32 million at December 31, 2018) were related for €32 million to Saipem SpA's opening of an escrow account with an Italian credit institution to guarantee an amount collected by an associate in the form of a contractual advance and for €146 million to the portion of cash and cash equivalents recognised in the financial statements of the company CCS JV Scarl as of December 31, 2019, allocated to Servizi Energia Italia SpA.

Other current financial assets from related parties are shown in Note 39 "Related party transactions".

Other non-current financial assets

The other non-current financial assets that are not instrumental to operations equal to €69 million, include mainly the amount of two frozen bank accounts belonging to Saipem Contracting Algérie SpA for a total of €68 million (€72 million before discounting) reclassified from cash and cash equivalents as specified in Note 8 "Cash and cash equivalents".

11 Trade receivables and other assets

Trade receivables and other assets of €2,601 million (€2,610 million at December 31, 2018) were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Trade receivables	2,292	2,244
Prepayments for services	176	220
Other receivables	142	137
Total	2,610	2,601

Receivables are stated net of a loss allowance of €754 million, whose movement is shown below:

(€ million)	Dec. 31, 2018	Accruals	Utilisations	Exchange differences	Other changes	Dec. 31, 2019
Trade receivables	674	76	(17)	9	(18)	724
Other	29	1	-	-	-	30
Total	703	77	(17)	9	(18)	754

Trade receivables amounted to €2,244 million, representing a decrease of €48 million compared to 2018.

The credit exposure to the top five clients is in line with the Group's operations and represents around 45% of total trade receivables.

The recoverability of trade receivables is checked using the so-called "expected credit loss model". The business model adopted by Saipem uses the simplified approach envisaged by IFRS 9, which requires the measurement of the loss allowance at an amount equal to the expected whole life credit losses of the trade receivable and uses the probability of client default for the quantification of expected credit losses, based on observable market data and on assessments collected by info-providers. Alongside the allocations made to the loss allowance after reviewing each past due trade receivable, which effectively already discounts a prospective view of the projects, an assessment is made of the creditworthiness of the clients. This assessment is performed at Corporate level on the portfolio of trade receivables.

At December 31, 2019, the effect of expected losses on trade receivables, determined on the basis of the assessment of the creditworthiness of the client, amounted to €116 million (€56 million at December 31, 2018) on the total loss allowance of €724 million (€674 million at December 31, 2018).

Below is the credit schedule gross of the creditworthiness assessment.

Trade receivables neither past due and not impaired amount to €1,670 million (€1,114 million at December 31, 2018), whereas receivables that are past due and are not impaired amount to €690 million (€1,234 million at December 31, 2018), €302 million of which are from 1 to 90 days past due (€528 million at December 31, 2018), €101 million of which are from 3 to 6 months past due (€211 million at December 31, 2018), €113 million of which are from 6 to 12 months past due (€194 million at December 31, 2018) and €174 million of which are past due for more than 12 months (€301 million at December 31, 2018). These receivables mainly concern counterparties with high creditworthiness.

At December 31, 2019, Saipem had non-recourse non-notification factoring agreements relating to trade receivables, including performing trade receivables, amounting to €18 million (€116 million at December 31, 2018). Saipem SpA is responsible for managing the collection of the assigned receivables and for transferring the sums collected to the factors.

Trade receivables included retentions guaranteeing contracts of €207 million (€200 million at December 31, 2018), of which €144 million were due within twelve months and €63 million due after twelve months.

At December 31, 2019, there were no trade receivables relating to projects in dispute (€74 million at December 31, 2018).

Other receivables of €137 million were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Receivables from:		
- employees	34	36
Guarantee deposits	11	13
Other	97	88
Total	142	137

Trade receivables and other assets from related parties are detailed in Note 39 "Related party transactions.

The fair value of trade receivables and other assets 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 €1,919 million (€1,712 million at December 31, 2018) divided, percentage-wise, among the following main currencies:

- > US Dollar 67% (55% at December 31, 2018);
- > Saudi Arabian Ryal 16% (27% at December 31, 2018);
- > Kuwaiti Dinar 4% (4% at December 31, 2018);
- > Australian Dollar 1% (4% at December 31, 2018);
- > other currencies 12% (10% at December 31, 2018).

12 Inventories and contract assets

Inventories

Inventories amounted to €303 million (€303 million at December 31, 2018) and were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Raw and auxiliary materials and consumables	303	303
Total	303	303

The item "Raw and auxiliary materials and consumables" includes spare parts for drilling and construction activities, as well as consumables for internal use and not for sale. The item is stated net of a provision for impairment of €133 million.

(€ million)	Dec. 31, 2018	Accruals	Utilisations	Other changes	Dec. 31, 2019
Raw and auxiliary materials and consumables allowance	123	15	(6)	1	133
Total	123	15	(6)	1	133

Contract assets

Contract assets for €1,028 million (€1,086 million at December 31, 2018) consisted of the following:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Contract assets (from work in progress)	1,089	1,034
Allowance for impairment on contract assets (from work in progress)	(3)	(6)
Total	1,086	1,028

Contract assets (from work in progress), equal to €1,034 million, representing a decrease of €55 million due to the recognition of milestones by customers for €522 million plus the effect of write-downs deriving from the continuous legal and commercial monitoring of claim and change order amounts considered in the whole life for the evaluation contracts purposes for €84 million, this amount is largely offset by €549 million deriving from the recognition of revenues based on the operating progress of projects to be invoiced during 2020 and other changes for €2 million.

13 Tax assets and liabilities

Current income tax assets and liabilities

Current income tax assets and liabilities consisted of the following:

(€ million)	Dec. 31, 2018		Dec. 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Italian tax authorities	57	1	57	-
Foreign tax authorities	144	45	194	87
Total current income taxes	201	46	251	87

The increase of current income tax assets and liabilities pertained entirely to relations with foreign financial administrations.

Other current tax assets and liabilities

Other current tax assets and liabilities consisted of the following:

(€ million)	Dec. 31, 2018		Dec. 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Italian tax authorities	2	14	6	13
Foreign tax authorities	115	94	161	126
Total other current taxes	117	108	167	139

Other current tax assets from Italian tax authorities amounting to €6 million (€2 million at December 31, 2018), relate to VAT assets for €3 million (€2 million at December 31, 2018) and other transactions for €3 million.

Other current tax assets from foreign tax authorities amounting to €161 million (€115 million at December 31, 2018), relate to indirect tax assets for €122 million (€89 million at December 31, 2018) and other transactions for €39 million (€26 million at December 31, 2018).

Other current tax liabilities to Italian tax authorities amounting to €13 million (€14 million at December 31, 2018), relate exclusively to other transactions (€13 million at December 31, 2018).

Other current tax liabilities to foreign tax authorities amounting to €126 million (€94 million at December 31, 2018), relate to indirect tax liabilities for €63 million (€41 million at December 31, 2018) and other transactions for €63 million (€53 million at December 31, 2018).

The increase of other current tax assets and liabilities pertained mainly to relations with foreign financial administrations.

Non-current income tax assets and liabilities

Non-current income tax assets and liabilities consisted of the following:

(€ million)	Dec. 31, 2018		Dec. 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Italian tax authorities	-	-	-	-
Foreign tax authorities	-	-	24	27
Total non-current income taxes	-	-	24	27

Non-current income tax assets relate to income tax assets expected to be due in more than twelve months. Non-current income tax liabilities relate to situations of fiscal uncertainty. Non-current income tax liabilities include the effect of the first-time adoption of IFRIC 23 equal to €27 million. The Saipem Group operates in numerous countries with complex tax laws to which it also adheres thanks to the support of local tax consultants, adopting a conduct which ensures the maximum compliance with the tax legislation in force and established practice. It is felt, therefore, that no significant additional liabilities will arise with respect to those already recognised.

14 Other assets

Other current assets

Other current assets amounted to €115 million (€100 million at December 31, 2018) and were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Fair value of derivative financial instruments	16	23
Other assets	84	92
Total	100	115

The fair value of derivative financial instruments is commented in Note 26 "Derivative financial instruments".

Other assets at December 31, 2019 amounted to €92 million, representing an increase of €8 million compared with December 31, 2018, and consisted mainly of prepayments related mostly to the preparation of vessels to be used on contracts and insurance costs.

Other non-current assets

Other non-current assets of €55 million (€67 million at December 31, 2018) were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Fair value of derivative financial instruments	-	2
Other receivables	11	9
Other assets	56	44
Total	67	55

The fair value of derivative financial instruments is commented in Note 26 "Derivative financial instruments".

Other assets at December 31, 2019 amounted to €44 million, a decrease of €12 million compared to December 31, 2018, and related mainly to prepayments, referring above all to maintenance of vessels.

Other assets from related parties are shown in Note 39 "Related party transactions".

15 Property, plant and equipment

Property, plant and equipment amounted to €4,129 million (€4,326 million at December 31, 2018) and consisted of the following:

(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Dec. 31, 2018							
Opening carrying amount	72	196	4,165	91	9	48	4,581
Capital expenditure	-	4	336	8	2	117	467
Depreciation and impairment losses	-	(35)	(676)	(27)	(4)	-	(742)
Disposals	-	-	(4)	-	-	-	(4)
Change in the consolidation scope	-	-	-	-	-	-	-
Business unit transactions	-	-	-	-	-	-	-
Exchange differences	(5)	6	20	2	-	1	24
Other changes	-	11	37	1	-	(49)	-
Closing carrying amount	67	182	3,878	75	7	117	4,326
Closing gross balance	67	1,087	11,641	571	107	139	13,612
Depreciation and impairment losses	-	905	7,763	496	100	22	9,286
Dec. 31, 2019							
Opening carrying amount	67	182	3,878	75	7	117	4,326
Capital expenditure	-	6	166	17	6	132	327
Depreciation and impairment losses	-	(39)	(461)	(24)	(4)	-	(528)
Disposals	-	-	(7)	-	-	-	(7)
Change in the consolidation scope	-	-	-	-	-	-	-
Business unit transactions	-	-	-	-	-	-	-
Exchange differences	-	2	8	1	-	-	11
Other changes	-	11	69	2	-	(82)	-
Closing carrying amount	67	162	3,653	71	9	167	4,129
Closing gross balance	67	1,104	11,750	545	108	187	13,761
Depreciation and impairment losses	-	942	8,097	474	99	20	9,632

Capital expenditure in 2019 amounted to €327 million (€467 million at December 31, 2018) and mainly related to:

- > €141 million in the Offshore Engineering & Construction sector: for class reinstatement works on the vessel Saipem Constellation and upgrading of the S7000 and upgrading of the existing assets;
- > €16 million in the Onshore Engineering & Construction sector: purchase and maintenance of equipment;
- > €86 million in the Offshore Drilling sector: upgrading of the drillship Saipem 12000 for the purchase of the second BOP and class reinstatement works, in addition to maintenance and upgrading of the existing assets;
- > €84 million for Onshore Drilling: upgrading of rigs for operations in Saudi Arabia and South America, as well as the maintenance and upgrading of the existing assets.

No financial expenses were capitalised during the year.

The main depreciation 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

Net exchange gains due to the translation of financial statements prepared in currencies other than euro, amounted to €11 million. At December 31, 2019, all property, plant and equipment was uncumbered by collateral.

The total commitment on current items of capital expenditure at December 31, 2019 is indicated in Note 3 "Accounting policies" in the "Outstanding contractual obligations" section.

Following strategic/operational assessments by the Offshore Drilling Division, a jack-up was partially impaired by €15 million during the year, because it will be replaced, due to completion of the contract, by a leased rig starting in March 2020.

The impairment test carried out on December 31, 2019 highlighted impairment losses as detailed in the following paragraph.

Impairment

In monitoring impairment indicators, the Group considers, among other factors, the relationship between its market capitalisation and equity. At December 31, 2019, the Group's market capitalisation was higher than the carrying amount of the forecast non-controlling interests by approximately €247 million; despite the absence of this indicator, in consideration of the impairment losses recognised in the annual reports of previous years, of the consequent absence of headroom at December 31, 2018 of the CGUs for which impairment losses were recognised at the end of 2018, management has considered it appropriate to carry out the impairment test on all the CGUs of the Group. Specifically, the impairment test was carried out on 17 CGUs (two new CGUs were identified compared to December 2018) and they were: one leased FPSO unit (Cidade de Vitoria), the Offshore Engineering & Construction Division, the Onshore Engineering & Construction Division excluding the leased FPSO, the XSIGHT Division, the Onshore Drilling Division, and the individual rigs the Offshore Drilling Division (12 separate rigs).

The CGUs were tested for impairment by comparing the carrying amount with the relative recoverable amount which is determined on the basis of the value in use obtained by discounting future cash flows generated by each CGU at the weighted average cost of capital ("WACC") specific to each business segment in which the individual CGU operates. In fact, considering the nature of Saipem's assets, the fair value of the CGUs cannot be determined from information directly observable on the market, and its estimate based on alternative techniques, such as market multiples, would be of limited reliability in general and, in many cases, not readily applicable.

The expected future cash flows used to estimate the recoverable amount of the individual CGUs are based on the best information available at the date of the review and, taking into account also actual results, considering future expectations of Division Management regarding the relevant markets. In particular, the estimate of cash flows in the first four years of projection made explicitly for the purposes of the impairment test is carried out on the basis of the projections of the 2020-2023 Strategic Plan approved by the Board of Directors in February 2020.

These estimates, in accordance with the provisions of IAS 36, do not consider cash inflows or outflows deriving from: (i) a future restructuring still to be approved or to which the Group is not committed yet, or (ii) the improvement or optimisation of business performance on the basis of initiatives still to be undertaken or approved, or for which there is still no commitment towards third parties for the increase of production capacity with respect to current capacity.

For the following years after Plan horizon, the cash flows are calculated on the basis of a terminal value, determined: (a) for the Offshore Engineering & Construction, Onshore Engineering & Construction excluding the leased FPSO Cidade de Vitoria, XSIGHT and Onshore Drilling CGUs using the perpetuity model, applying to the terminal free cash flow "normalised" (to take into consideration the dynamics of the business and/or the cyclical nature of the sector) a long term growth rate of 2% (not exceeding nominal growth rates expected in the long term for relevant energy sectors which consider market expectations in terms of real growth and inflation); (b) for the leased FPSO Cidade de Vitoria CGU and for the Offshore Drilling rigs, considering beyond the plan horizon (on the basis of the residual economic and technical life of the individual assets, or, if earlier the expected expiry date of the last cyclical maintenance): (i) long-term lease rates defined as part of the planning process, by the related division, through an estimate procedure based on managerial assessments developed through a critical exercise on collected information (both internal and external), inflated by 2% over the period of projection; (ii) "normalised" idle days; (iii) operating costs based on figures of the last year of the plan, inflated by 2% (in line with revenue); (iv) investments and related plant down times for cyclical maintenance and replacements estimated by the divisions on the basis of the planned schedule for cyclical and intermediate maintenance.

Value in use at December 31, 2019 was calculated by discounting post-tax cash flows with a discount rate, specific to each business segment as shown in the table below:

(%)	WACC Dec. 31, 2019	WACC Dec. 31, 2019
Offshore E&C	9.9	8.2
Onshore E&C	9.4	7.6
XSIGHT	9.4	7.6
Leased FPSO	6.2	5.7
Offshore Drilling	7.7	8.2
Onshore Drilling	8.4	7.9

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

The assumptions adopted take account of the level of interest rates in the last six months, the risks of the individual activities already included in the cash flows, and the expectations of long-term growth in the business.

As explained in Note 4 "Accounting estimates and significant judgements", in terms of impairment tests, IFRS 16 requires, for the lessee, that the Right-of-Use assets is tested to assess any impairment pursuant to IAS 36, similarly to other proprietary assets, on a stand-alone basis or at the level of the CGU. The right of use assets have been allocated to the relevant CGUs and tested with them. During the interim of 2019, considering the lack of an approved Strategic Plan 2019-2022 presenting the impact of IFRS 16 and the lack of evidence of a common practice among experts and competitors, Saipem deemed it appropriate (i) to include the Right-of-Use asset net of the related Lease Liability in the CGU being assessed and (ii) to determine the value-in-use considering the disbursements for lease payments and using a discount rate pre IFRS 16. During the impairment test carried out on December 31, 2019, considering the availability of a Strategic Plan representing the impact of IFRS 16 and the convergent trends of literature and prevailing practice, Saipem deemed it appropriate to proceed with a methodological refinement: (i) including the Right-of-Use assets of the CGU being tested, including the related Lease Liability, and (ii) determining the Value In Use excluding the relative lease payments and using an updated discount rate, which reflects the leverage of lease contracts. For consistency, the cash flows consider investments for Right-of-Use assets and the relative depreciation.

The impairment test carried out on December 31, 2019 identified impairment losses for a total of €58 million.

The following table summarises the overall results of the test carried out on the individual CGUs:

(€ million)	Offshore	Onshore	Offshore Drilling	Onshore Drilling	Leased FPSO	XSIGHT
Headroom/impairment loss	731	3.817	(58)	407	19	57

Sensitivity analysis can be found below for the 14 CGUs, with reference to 12 Offshore Drilling rigs, one leased FPSO vessel and the Onshore Drilling CGU, while the sensitivity analysis for the Offshore Engineering & Construction, Onshore Engineering & Construction excluding the leased FPSO and XSIGHT CGUs can be found in Note 16 "Intangible assets".

Sensitivity analysis of the CGUs referring to 12 Offshore Drilling rigs and the leased FPSO

The key assumptions adopted in assessing the recoverable amounts of the 13 CGUs representing the Group's offshore vessels (12 from Offshore Drilling and one leased FPSO) related mainly to the operating result of the CGUs (based on a combination of various factors, including charter rates and exchange rates) and the discount rate applied to the cash flows. The effects of the sensitivity analysis on the parameters used for the estimate will be analysed below on the recoverable amount of these CGUs:

- > an increase in the discount rate of 1% would produce an increase in impairment loss equal to €100 million;
- > decreases in the discount rate of 1% would produce a decrease in impairment loss equal to €25 million;
- > decreases in long-term day rates of 10% compared with the rates assumed in the plan projections would produce an increase in impairment loss of €254 million;
- > an increase in long-term day rates of 10% compared with the rates assumed in the plan projections would produce a decrease in impairment loss of €41 million;
- > decreases in long-term day rates of 20% compared with the rates assumed in the plan projections would produce an increase in impairment loss of €544 million;
- > an increase in long-term day rates of 20% compared with the rates assumed in the plan projections would produce a decrease in impairment loss of €57 million;
- > an increase in long-term euro/dollar exchange rate of 0.1 compared to the scenario assumed in plan projections amounting to 1.3, would produce an increase in impairment loss of €181 million;
- > a decrease in long-term euro/dollar exchange rate of 0.1 compared to the scenario assumed in plan projections amounting to 1.3, would produce a decrease in impairment loss of €36 million.

Sensitivity analysis on the Onshore Drilling CGU

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

- > decrease by 44% in the operating result, over the entire plan period and in perpetuity;
- > use of a discount rate of 12.1%;
- > use of a negative terminal growth rate.

Further, the excess of the recoverable amount over the value of the net capital employed in the CGU would decrease in the event that working capital flows have been zeroed, but would still remain positive.

16 Intangible assets

Intangible assets of €698 million (€702 million at December 31, 2018) consisted of the following:

(€ million)	Development costs	Industrial patents and intellectual property rights	Concessions, licences and trademarks	Assets under construction and advances	Other intangible assets	Total intangible assets with indefinite useful lives	Goodwill	Total intangible assets
Dec. 31, 2018								
Opening carrying amount	-	18	1	5	2	26	727	753
Capital expenditure	-	12	-	6	-	18	-	18
Amortisation and impairment losses	-	(8)	(1)	-	-	(9)	(60)	(69)
Exchange differences and other changes	-	1	1	(2)	-	-	-	-
Closing carrying amount	-	23	1	9	2	35	667	702
Closing gross balance	7	201	17	9	11	245	-	-
Amortisation and impairment losses	7	178	16	-	9	210	-	-
Dec. 31, 2019								
Opening carrying amount	-	23	1	9	2	35	667	702
Capital expenditure	-	2	-	7	-	9	-	9
Amortisation and impairment losses	-	(12)	(1)	-	-	(13)	-	(13)
Exchange differences and other changes	-	10	1	(11)	-	-	-	-
Closing carrying amount	-	23	1	5	2	31	667	698
Closing gross balance	8	213	17	5	11	254	-	-
Amortisation and impairment losses	8	190	16	-	9	223	-	-

Concessions, licences, trademarks, industrial patents and intellectual property rights, respectively €1 and €23 million, include mainly the costs incurred for the implementation in the parent company of various application systems and SAP modules.

The main amortisation rates were as follows:

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

Goodwill of €667 million related mainly to the difference between the purchase price, including transaction costs, and the net assets of Saipem SA (€629 million), Sofresid SA (€21 million) and the Moss Maritime Group (€12 million) on the date that control was acquired.

For impairment purposes, goodwill has been allocated to the following CGUs:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Offshore E&C	403	403
Onshore E&C	231	231
XSIGT	33	33
Total	667	667

The recoverable amount of the three CGUs, to which goodwill was allocated, was determined based on value in use, calculated by discounting the future cash flows expected to be generated by each CGU.

The basis of the cash flow estimate, the discount rate used and the terminal growth rate for the estimate of the recoverable amount of the CGUs to which goodwill is allocated are described in the "Impairment" section of Note 15 "Property, plant and equipment".

The table below shows, at December 31, 2019, the amounts by which the recoverable amounts of the Offshore Engineering & Construction, Onshore Engineering & Construction and XSIGHT CGUs exceed their carrying amounts, including allocated goodwill.

(€ million)	Offshore	Onshore	XSIGHT	Total
Goodwill	403	231	33	667
Amount by which recoverable amount exceeds carrying amount	731	3,817	57	4,605

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

Sensitivity analysis on the Offshore Engineering & Construction CGU

The excess of the recoverable amount of the Offshore Engineering & Construction CGU over its carrying amount, including the allocated portion of goodwill, is reduced to zero under the following circumstance:

- > decrease by 18% in the operating result, over the entire plan period and in perpetuity;
- > use of a discount rate of 9.8%;
- > use of a zero terminal growth rate.

Further, the excess of the recoverable amount over the value of the net capital employed in the Offshore Engineering & Construction CGU would decrease but would still remain positive in the event that working capital flows have been zeroed.

Sensitivity analysis on the Onshore Engineering & Construction CGU

The excess of the recoverable amount of the Onshore Engineering & Construction CGU over its carrying amount, including the allocated portion of goodwill, is never reduced to zero for any variation of the discount rate and terminal growth rate or for a reduction of the operating profit along the entire period of the plan and in perpetuity.

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

Sensitivity analysis on the XSIGHT CGU

The excess of the recoverable amount of the XSIGHT CGU over its carrying amount, including the allocated portion of goodwill, is reduced to zero under the following circumstances:

- > decrease by 14% in the operating result, over the entire plan period and in perpetuity;
- > use of a discount rate of 12.2%;
- > use of a negative terminal growth rate.

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

17 Right-of-Use assets, lease assets and lease liabilities

The movements during the period of the Right-of-Use assets and lease financial assets and liabilities as of December 31, are shown as follows:

(€ million)	Right-of-Use asset	Lease assets		Lease liabilities	
		Current	Non-current	Current	Non-current
Opening balance					
(effect of adopting IFRS 16 - January 1, 2019)	550	-	1	130	418
Increases	219	-	19	-	238
Decreases and cancellations	34	(5)	-	(161)	(31)
Depreciation and impairment losses	(149)	-	-	-	-
Exchange differences	-	-	-	-	5
Interest	-	1	-	27	-
Other changes	(2)	12	(12)	153	(153)
Final value at December 31, 2019	584	8	8	149	477

As at December 31, 2019, no Right-of-Use asset is a stand-alone CGU. For the purposes of determining the recoverable amount, the Right-of-Use assets have been allocated to the relevant CGUs and tested as described in the paragraph "Impairment" of Note 15 "Property, plant and equipment".

On the basis of business assessments, renewal options relating mainly to vessels belonging to the Offshore Engineering & Construction Division and to properties totalling €315 million (€270 million at January 1, 2019) are not considered in the determination of the total duration of the contracts and lease liability as at December 31, 2019.

Lease assets refer to subleases of vessels.

The detail by type of the "Right-of-Use" assets as of December 31 is highlighted as follows:

(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Total
Opening net balance (effect of adopting IFRS 16 - Jan. 1, 2019)	35	227	273	8	7	550
Increases	5	81	110	17	6	219
Decreases and cancellations	(1)	(30)	(2)	(1)	-	(34)
Depreciation and impairment losses	(8)	(58)	(70)	(8)	(5)	(149)
Exchange differences	-	-	-	-	-	-
Other changes	-	(2)	-	-	-	(2)
Closing net balance	31	218	311	16	8	584
Closing gross balance	39	274	381	24	14	732
Amortisation and impairment losses	8	56	70	8	6	148

The analysis by maturity of net lease liabilities at December 31, 2019 is as follows:

(€ million)	Current portion 2020	Non-current portion					Total
		2021	2022	2023	2024	After	
Lease liabilities	149	129	127	89	70	62	626
Lease assets	8	7	1	-	-	-	16
Total	141	122	126	89	70	62	610

18 Equity investments

Equity investments accounted for using the equity method

Equity investments accounted for using the equity method of €133 million (€119 million at December 31, 2018) were as follows:

(€ million)	Opening carrying amount	Acquisitions and subscriptions	Sales and reimbursements	Share of profit of equity-accounted investees	Share of loss of equity-accounted investees	Deduction for dividends	Change in the consolidation scope	Exchange differences	Movements in reserves	Other changes	Closing carrying amount	Loss allowance
Dec. 31, 2018												
Investments in subsidiaries, joint ventures and associates	142	27	-	13	(57)	(3)	-	5	-	(8)	119	-
Total	142	27	-	13	(57)	(3)	-	5	-	(8)	119	-
Dec. 31, 2019												
Investments in subsidiaries, joint ventures and associates	119	45	-	29	(19)	(2)	-	2	(1)	(40)	133	-
Total	119	45	-	29	(19)	(2)	-	2	(1)	(40)	133	-

Equity investments accounted for using the equity method are detailed in Note 6 "Consolidation scope at December 31, 2019". The share of profit of equity-accounted investees of €29 million included profits for the period of €25 million recorded by the joint ventures and €4 million for the period recorded by associates.

The share of loss of equity-accounted investees of €19 million included losses for the period of €5 million recorded by the joint ventures and €14 million for the period recorded by associates.

Deductions following the distribution of dividends of €2 million related to a joint venture and an associate company.

The other negative changes of €40 million relate to transfers from the provision to cover losses.

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

(€ million)	Group interest (%)	Carrying amount at Dec. 31, 2018	Carrying amount at Dec. 31, 2019
Rosetti Marino SpA	20.00	30	31
Petromar Lda	70.00	39	51
Other		50	51
Total equity investments accounted for using the equity method		119	133

The total of equity investments accounted for using the equity method does not include the allocation of the provision to cover losses, commented in Note 24 "Provisions for risks and charges".

Other equity investments

The other equity investments are not significant as of December 31, 2019.

Other information about equity 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 measured at cost, in proportion to the Group interest held:

(€ million)	Dec. 31, 2018			Dec. 31, 2019		
	Subsidiaries	Joint ventures	Associates	Subsidiaries	Joint ventures	Associates
Total assets	-	172	407	4	594	745
of which cash and cash equivalents	-	43	24	-	274	172
Total liabilities	-	170	331	4	551	682
Net revenue	-	120	154	-	286	274
Operating profit (loss)	-	(57)	21	-	13	(6)
Profit (loss) for the year	-	(89)	2	-	(5)	(13)

The table below shows the financial and economic data relating to joint ventures (full amounts shown).

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Current assets	289	1,205
- of which cash and cash equivalents	95	628
- of which current lease assets	-	-
Non-current assets	74	128
- of which non-current lease assets	-	42
Total assets	363	1,333
Current liabilities	273	1,109
- of which current financial liabilities	1	1
- of which current portion of non-current lease liabilities	-	8
Non-current liabilities	148	187
- of which non-current financial liabilities	133	136
- of which non-current lease liabilities	-	31
Total liabilities	421	1,296
Equity	(58)	37
Carrying amount of equity investment	2	43
Revenue and other operating income	279	655
Operating expenses	(432)	(634)
Amortisation, depreciation and impairment losses	(14)	(17)
Operating profit (loss)	(167)	4
Financial income (expense)	(90)	(36)
Gains (losses) on equity investments	(1)	-
Pre-tax profit (loss)	(258)	(32)
Income taxes	(6)	(11)
Profit (loss) for the year	(264)	(43)
Other items of comprehensive income	14	6
Comprehensive income (expense) for the year	(250)	(37)
Profit (loss) attributable to the Group	(89)	(5)
Dividends to the Group approved by joint ventures	3	1

The table below shows the financial and economic data relating to associates (full amounts shown).

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Current assets	842	2,906
- of which cash and cash equivalents	77	945
- of which current lease assets	-	-
Non-current assets	213	242
- of which non-current lease assets	-	14
Total assets	1,055	3,148
Current liabilities	691	2,760
- of which current financial liabilities	68	27
- of which current portion of non-current lease liabilities	-	2
Non-current liabilities	92	146
- of which non-current financial liabilities	21	38
- of which non-current lease liabilities	-	10
Total liabilities	783	2,906
Equity	272	242
Carrying amount of equity investment	76	63
Revenue and other operating income	480	1,292
Operating expenses	(396)	(1,265)
Amortisation, depreciation and impairment losses	(27)	(35)
Operating profit (loss)	57	(8)
Financial income (expense)	(40)	(18)
Gains (losses) on equity investments	-	2
Pre-tax profit (loss)	17	(24)
Income taxes	(8)	(7)
Profit (loss) for the year	9	(31)
Other items of comprehensive income	4	3
Comprehensive income (expense) for the year	13	(28)
Profit (loss) attributable to the Group	2	(13)
Dividends to the Group approved by joint ventures	-	1

19 Deferred tax assets and liabilities

Deferred tax assets of €297 million (€250 million at December 31, 2018) are shown net of offsettable deferred tax liabilities. Deferred tax liabilities of €6 million (€18 million at December 31, 2018) are shown net of offsettable deferred tax assets of €83 million.

The movements of deferred tax assets and deferred tax liabilities were as follows:

(€ million)	Dec. 31, 2018	Additions	Deductions	Exchange differences	Other changes	Dec. 31, 2019
Deferred tax assets	250	118	(90)	1	18	297
Deferred tax liabilities	(18)	(18)	54	(1)	(23)	(6)
Total deferred tax assets (liabilities)	232	100	(36)	-	(5)	291

The item "Other changes" in deferred tax assets, up €18 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (up €22 million); (ii) the tax effects (down €5 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; (iii) the tax effects (up €4 million) of remeasurements of defined benefit plans for employees reported in equity; (iv) other changes (down €3 million).

The item "Other changes" in deferred tax liabilities, up €23 million, included: (i) offsetting of deferred tax assets against deferred tax liabilities at individual entity level (up €22 million); (ii) the tax effects (up €1 million) of fair value changes of derivatives designated as cash flow hedges reported in equity; (iii) the tax effects (up €1 million) of fair value changes of financial assets with effects on OCI reported in equity; (iv) other changes (down €1 million).

Net deferred tax assets consisted of the following:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Deferred tax liabilities	(123)	(89)
Offsettable deferred tax assets	105	83
Net deferred tax liabilities	(18)	(6)
Non-offsettable deferred tax assets	250	297
Net deferred tax assets (liabilities)	232	291

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

(€ million)	Dec. 31, 2018	Accruals	Utilisations	Exchange differences	Other changes	Dec. 31, 2019
Deferred tax liabilities:						
- accelerated and excess depreciation	(96)	-	49	(1)	-	(48)
- hedging derivatives	(2)	(1)	1	-	(1)	(3)
- employee benefits	(1)	-	1	-	-	-
- non distributed reserves held by investees	(15)	(7)	-	-	-	(22)
- project progress status	(3)	(7)	-	-	-	(10)
- IFRS 16 lease	-	(2)	-	-	-	(2)
- other	(6)	(1)	3	-	-	(4)
	(123)	(18)	54	(1)	(1)	(89)
less:						
Offsettable deferred tax liabilities	105	-	-	-	(22)	83
Deferred tax liabilities	(18)	(18)	54	(1)	(23)	(6)
Deferred tax assets:						
- accruals to loss allowance and non-deductible risks and charges	76	48	(23)	-	2	103
- non-deductible depreciation	38	5	(6)	2	-	39
- hedging derivatives	12	3	(2)	-	(5)	8
- employee benefits	30	14	(8)	-	4	40
- tax losses carried forward	837	144	(51)	12	-	942
- project progress status	27	-	-	1	-	28
- IFRS 16 lease	-	2	-	-	-	2
- other	53	19	(14)	-	(2)	56
	1,073	235	(104)	15	(1)	1,218
less:						
- unrecognised prepaid income taxes	(718)	(117)	14	(14)	(3)	(838)
	355	118	(90)	1	(4)	380
less:						
Offsettable deferred tax assets	(105)	-	-	-	22	(83)
Deferred tax assets	250	118	(90)	1	18	297
Net deferred tax assets (liabilities)	232	100	(36)	-	(5)	291

Unrecognised prepaid income taxes of €838 million (€718 million at December 31, 2018) mainly relate to tax losses that it will probably not be possible to utilise against future taxable amounts in the next four years.

Tax losses

Tax losses amounted to €3,640 million (€3,207 million at December 31, 2018), of which €2,604 million can be carried forward without limit. Tax recovery corresponds to a tax rate of 24% for Italian companies and to an average tax rate of 25.5% for foreign companies.

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

(€ million)	Italy	Outside Italy
2020	-	36
2021	-	44
2022	-	38
2023	-	25
2024	-	93
After 2024	-	800
Without limit	1,083	1,521
Total	1,083	2,557

Tax losses for which deferred tax assets have not been accounted for, in accordance with the provisions of IAS 12, amounted to €3,057 million.

Taxes are shown in Note 35 "Income taxes".

20 Trade payables, other liabilities and contract liabilities

Trade payables and other liabilities

Trade payables and other liabilities of €2,528 million (€2,674 million at December 31, 2018) consisted of the following:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Trade payables	2,372	2,262
Other liabilities	302	266
Total	2,674	2,528

Trade payables amounted to €2,262 million, representing a decrease of €110 million compared to December 31, 2018.

Trade payables and other liabilities to related parties are shown in Note 39 "Related party transactions".

Other liabilities of €266 million were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Liabilities to:		
- employees	147	143
- national insurance/social security contributions	59	61
- insurance companies	3	3
- consultants and professionals	7	8
- Directors and Statutory Auditors	1	1
Other	85	50
Total	302	266

The fair value of trade payables and other liabilities did not differ significantly from their carrying amount due to the short period of time elapsed between their date of origination and their due date.

Contract liabilities

Contract liabilities of €1,848 million (€1,205 million at December 31, 2018) consisted of the following:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Contract liabilities (from work in progress)	681	1,139
Advances from clients	524	709
Total	1,205	1,848

Contract liabilities (from work in progress) of €1,139 million (€681 million at December 31, 2018) relate to adjustments in revenue invoiced on long-term contracts, in order to comply with the principle of accruals, in application of the accounting policies based on the contractual amounts accrued.

In particular, contract liabilities (from work in progress) increased by €458 million due to adjustments in revenues invoiced during the year following the evaluation on the basis of the operational progress of the projects for €741 million, partially offset by the recognition of revenues of the current year for €283 million adjusted at the end of the previous year.

Advances from clients of €709 million (€524 million at December 31, 2018) relate to amounts received on contracts in execution. Contract liabilities to related parties are shown in Note 39 "Related party transactions".

21 Other liabilities

Other current liabilities

Other current liabilities amounted to €45 million (€92 million at December 31, 2018) and were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Fair value of derivative financial instruments	86	38
Other liabilities	6	7
Total	92	45

The fair value of derivative financial instruments is commented in Note 26 "Derivative financial instruments". Other liabilities amounted to €7 million (€6 million at December 31, 2018).

Other non-current liabilities

Other non-current liabilities of €1 million (€9 million at December 31, 2018) were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Fair value on derivative financial instruments	9	-
Other liabilities	-	1
Total	9	1

Other liabilities to related parties are shown in Note 39 "Related party transactions".

22 Financial liabilities

Financial liabilities were as follows:

(€ million)	Dec. 31, 2018				Dec. 31, 2019			
	Current portion	Current portion of non-current	Non-current	Total	Current portion	Current portion of non-current	Non-current	Total
Banks	73	187	655	915	153	206	676	1,035
Ordinary bonds	-	38	1,991	2,029	-	38	1,994	2,032
Other financial institutions	7	-	-	7	11	-	-	11
Total	80	225	2,646	2,951	164	244	2,670	3,078

Some loans are subject to compliance with financial covenants which to-date have been complied with.

It should be noted that there are "change of control" clauses for which reference is made to the "Corporate Governance and Shareholding Structure Report 2019".

The analysis by maturity of non-current financial liabilities at December 31, 2019 is as follows:

(€ million)	Maturity range	Dec. 31, 2019					After	Total non-current financial liabilities
Type		2021	2022	2023	2024			
Banks	2021-2027	165	152	138	87	134	676	
Ordinary bonds	2021-2027	498	498	499	-	499	1,994	
Total		663	650	637	87	633	2,670	

With reference to future contractual payments due, the maturities of non-current financial liabilities were analysed as follows:

(€ million)	Carrying amount at Dec. 31, 2019	Short-term maturity Dec. 31, 2020	Long-term maturity					After	Total future payments as at Dec. 31, 2019
			2021	2022	2023	2024			
Banks	882	209	169	154	140	89	135	896	
Ordinary bonds	2,032	41	500	500	500	-	500	2,041	
Total	2,914	250	669	654	640	89	635	2,937	

The difference of €23 million between the carrying amount of the non-current financial liabilities recognised in the financial statements at December 31, 2019 and the total of future payments is due to the measurement using the amortised cost method.

With reference to the bond named “€500,000,000 3.000% Notes Due 8 March 2021”, Saipem Finance International BV decided to exercise its pre-payment option on January 31, 2020. Further details can be found in Note 42 “Outlook and events after the reporting period”.

The analysis of financial liabilities by currency with an indication of the interest rate is as follows:

(€ million)

Currency	Dec. 31, 2018						Dec. 31, 2019							
	Interest rate %			Non-current (including current portion)	Interest rate %			Interest rate %			Non-current (including current portion)	Interest rate %		
	Current	from	to		from	to	Current	from	to	from		to		
Euro	4	0.00	0.00	2,871	0.90	3.75	4	0.00	0.00	2,914	0.90	3.75		
US Dollar	1	0.00	0.00	-	-	-	7	0.00	0.00	-	-	-		
Other	75	variable		-	-	-	153	variable		-	-	-		
Total	80			2,871			164			2,914				

Non-current financial liabilities, including the current portion, mature between 2020 and 2027.

At December 31, 2019, Saipem had unused uncommitted short-term credit lines amounting to €235 million (€283 million at December 31, 2018) and unused committed long-term credit lines amounting to €1,000 million (€1,258 million at December 31, 2018).

Commission fees on unused lines of credit were not significant.

There were no financial liabilities secured by mortgages or liens on real estate of consolidated companies and by pledges on securities.

The fair value of non-current financial liabilities, including the current portion, amounted to €3,085 million (€2,875 million at December 31, 2018) and was calculated by discounting the expected future cash flows in the main currencies of the loan at the following, approximate rates:

(%)	2018	2019
Euro	0.23-4.23	0.00-1.52

The market value of listed financial instruments was calculated using the closing stock price at the last available date of the year. The difference between the market value of non-current financial liabilities and their nominal amount is mainly related to bond issues outstanding at the reporting date.

Based on the provisions of the “Disclosure Initiative” (amendments to IAS 7) the following is a reconciliation between the initial and final values of finance debt and the net financial position:

(€ million)	Dec. 31, 2018	Changes in cash flows	Non-cash changes				Other non-monetary changes	Dec. 31, 2019
			Acquisitions	Exchange differences	Change in the fair value			
Current financial liabilities	80	83	-	1	-	-	164	
Non-current financial liabilities and current portion thereof	2,871	43	-	-	-	-	2,914	
Total net liabilities from financing activities	2,951	126	-	1	-	-	3,078	

Long-term debt to related parties are shown in Note 39 “Related party transactions”.

23 Analyses of net financial debt

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

(€ million)	Dec. 31, 2018			Dec. 31, 2019		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	1,674	-	1,674	2,272	-	2,272
B. Financial assets measured at fair value through OCI	86	-	86	87	-	87
C. Liquidity (A+B)	1,760	-	1,760	2,359	-	2,359
D. Lease assets	-	-	-	8	-	8
E. Loan assets (*)	32	-	32	178	-	178
F. Current bank loans and borrowings	73	-	73	153	-	153
G. Non-current bank loans and borrowings	187	655	842	206	676	882
H. Current financial liabilities - related parties	-	-	-	-	-	-
I. Ordinary bonds	38	1,991	2,029	38	1,994	2,032
L. Non-current financial liabilities - related parties	-	-	-	-	-	-
M. Other current financial liabilities	7	-	7	11	-	11
N. Other non-current financial liabilities	-	-	-	-	-	-
O. Lease liabilities	-	-	-	149	477	626
P. Gross financial debt (F+G+H+I+L+M+N+O)	305	2,646	2,951	557	3,147	3,704
Q. Net financial position pursuant to Consob Communication No. DEM/6064293/2006 (P-C-D-E)	(1,487)	2,646	1,159	(1,988)	3,147	1,159
R. Non-current loan assets	-	-	-	-	69	69
S. Lease assets	-	-	-	-	8	8
T. Net financial debt (Q-R-S)	(1,487)	2,646	1,159	(1,988)	3,070	1,082

(*) This item includes the liquidity which had been allocated to a subsidiary deriving from a limited liability consortium company reversed through the charge back of costs.

Net financial debt includes a financial liability relating to the interest rate swap, equal to €2 million, but does not include the fair value of derivatives indicated in Note 14 "Other assets" and Note 21 "Other liabilities".

The change in net financial debt pre-net lease liabilities, equal to €610 million, compared to the balance at December 31, 2018, negative for €687 million, is mainly due to the cash flows from operations generated during the year net of investments for the year.

Loan assets are explained in Note 10 "Other financial assets".

24 Provisions for risks and charges

Provisions for risks and charges of €253 million (€330 million at December 31, 2018) consisted of the following:

(€ million)	Opening balance	First application of IFRIC 23	Accruals	Utilisations	Other changes	Closing balance
Dec. 31, 2018						
Provisions for taxes	69	-	6	(10)	-	65
Provisions for disputes	74	-	69	(17)	-	126
Provisions for losses on investments	2	-	43	-	(4)	41
Provision for contractual expenses and losses on long-term contracts	50	-	34	(46)	19	57
Provisions for redundancy incentives	25	-	-	(18)	-	7
Other provisions	120	-	10	(74)	(22)	34
Total	340	-	162	(165)	(7)	330
Dec. 31, 2019						
Provisions for taxes	65	(26)	6	(31)	1	15
Provisions for disputes	126	-	72	(79)	1	120
Provisions for losses on investments	41	-	28	-	(42)	27
Provision for contractual expenses and losses on long-term contracts	57	-	17	(23)	(2)	49
Provisions for redundancy incentives	7	-	3	(6)	(3)	1
Other provisions	34	-	15	(8)	-	41
Total	330	(26)	141	(147)	(45)	253

The **provisions for taxes** amounted to €15 million and related principally to disputes concerning indirect taxes with foreign tax authorities that are either ongoing and take into account the results of recent assessments.

It should be noted that the first application of IFRIC 23 led to a reclassification of €26 million under the heading of non-current income tax liabilities.

The Group operates in numerous countries with complex tax laws to which it adheres thanks also to the support of local tax consultants. In some of these jurisdictions, the Group is handling, through appeals, some requests made by the tax authorities, from which the Directors believe that no further significant charges will arise with respect to what has already been set aside.

The **provisions for disputes** amounted to €120 million and consisted of provisions set aside by Saipem SpA and a number of foreign subsidiaries in relation to ongoing disputes. The main amounts are related to the dispute with Husky - Sunrise Energy Project in Canada and to a lawsuit with a supplier for a project in Saudi Arabia.

The **provisions for losses on investments** amounted to €27 million and related to provisions for losses of investees that exceed the carrying amount of the Group's investment. The other changes mainly refer to the covering of previous losses.

The **provision for contractual expenses and losses on long-term contracts** amounted to €49 million and included the estimate of losses of the Offshore and Onshore Engineering & Construction divisions for €26 million and the provision for final project costs for the amount of €23 million.

The **provisions for redundancy incentives** amounted to €1 million and referred to provisions of a foreign subsidiary.

Other provisions amounted to €41 million and are for other contingencies.

25 Employee benefits

Employee benefits amounted to €246 million (€208 million at December 31, 2018) and consisted of the following:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Post-employment benefits (TFR)	39	36
Foreign defined benefit plans	80	95
FISDE and other health plans	22	26
Other long-term employee benefits	67	89
Total	208	246

Post-employment benefits ("TFR"), regulated by Article 2120 of the Italian Civil Code, relate to the statutory benefits, estimated using actuarial techniques, to be paid to employees by Italian companies on termination of the employment relationship. The benefits are paid upon termination of the employment relationship as a lump sum payment and are determined by the total of the accruals during the employees' service period based on payroll costs as revalued until termination of the relationship.

As a result of legislative changes starting from January 1, 2007, post-employment benefits under the Italian TFR regime are paid into pension funds or the treasury fund held by the Italian National Social Welfare Institute (Inps). For companies with less than 50 employees, the benefits can be held by the company, as in the previous years.

The allocation of TFR provisions to private pension funds or to the INPS fund means that a significant part of these amounts would be classified as costs to provide benefits under a defined contribution plan because company obligations are exclusively represented by contributions to pension funds or the Inps. Past provisions accrued for post-retirement indemnities under the Italian TFR regime continue to represent costs to provide benefits under a defined benefit plan and must be assessed based on actuarial assumptions.

Foreign defined benefit plans related to:

- > defined pension benefit plans of foreign companies located, primarily, in France, Switzerland, the United Kingdom and Norway;
- > pension provisions and similar obligations for personnel employed abroad, to whom local legislation applies.

Benefits consist of a return on capital determined on the basis of the length of service and the salary paid in the last year of service, or the average annual salary paid in a determined period preceding termination.

Liabilities and costs related to supplementary medical fund for Eni managers (FISDE) are calculated on the basis of the contributions paid by the company for retired managers.

Other provisions for long-term employee benefits related mainly to long-term incentive plans, jubilee awards, the voluntary redundancy incentive plan (Article 4, Italian Law No. 92/2012) and other long-term plans.

The long-term incentive plans, as well as the jubilee awards represent long-term benefit plans. The long-term incentive plans (LTI) include the estimate, which was determined based on actuarial assumptions, of the amount to be paid to the beneficiaries under the condition that they remain employed for the three-year period following the allocation of the incentive; the determined cost is allocated on a "pro-rata temporis" basis during the vesting period. The Company has provided long-term incentives for middle-management employees. Jubilee awards are benefits due following the attainment of a minimum period of service and, with regard to Italian companies, they consist of remuneration in kind.

The voluntary redundancy incentive plan, allocated following an agreement which implemented the provisions of Article 4 of Italian Law No. 92/2012, and which was dated May 23, 2016 between Saipem SpA and the representatives of the main Trade Union Organisations in order to implement, in the least traumatic way possible, a correct restructuring of personnel, includes the estimate of charges, determined on an actuarial basis, connected to offers for early, consensual termination of the employment relationship.

Employee benefits calculated using actuarial techniques are analysed as follows:

(€ million)	Dec. 31, 2018					Dec. 31, 2019				
	Post-employment benefits (TFR)	Foreign defined benefit plans	FISDE and other foreign health plans	Other long-term employee benefits	Total	Post-employment benefits (TFR)	Foreign defined benefit plans	FISDE and other foreign health plans	Other long-term employee benefits	Total
Present value of benefit obligation at the beginning of the year	43	161	20	54	278	39	153	22	67	281
Current cost	-	14	1	5	20	-	14	-	41	55
Interest expense	1	3	-	1	5	1	4	-	-	5
Remeasurements:	-	(5)	2	(3)	(6)	-	17	3	5	25
- actuarial gains and losses arising from changes in demographic assumptions	-	(2)	-	-	(2)	-	1	-	-	1
- actuarial gains and losses arising from changes in financial assumptions	-	(3)	-	-	(3)	1	12	(1)	2	14
- experience adjustments	-	-	2	(3)	(1)	(1)	4	4	3	10
Past service cost and gains/losses arising from termination	-	(6)	-	29	23	-	(1)	2	(1)	-
Contributions to plan:	-	-	-	(2)	(2)	-	-	-	-	-
- contributions to plan by employees	-	-	-	-	-	-	-	-	-	-
- contributions to plan by employer	-	-	-	(2)	(2)	-	-	-	-	-
Benefits paid	(5)	(14)	(1)	(17)	(37)	(4)	(14)	(1)	(23)	(42)
Business unit transactions	-	-	-	-	-	-	(1)	-	-	(1)
Exchange differences and other changes	-	-	-	-	-	-	4	-	-	4
Present value of benefit obligation at year end	39	153	22	67	281	36	176	26	89	327
Plan assets at the beginning of the year	-	79	-	-	79	-	73	-	-	73
Interest income	-	1	-	-	1	-	2	-	-	2
Return on plan assets	-	(3)	-	-	(3)	-	3	-	-	3
Past service cost and gains/losses arising from termination	-	(3)	-	-	(3)	-	-	-	-	-
Contributions to plan:	-	4	-	-	4	-	4	-	-	4
- contributions to plan by employees	-	-	-	-	-	-	-	-	-	-
- contributions to plan by employer	-	4	-	-	4	-	4	-	-	4
Benefits paid	-	(4)	-	-	(4)	-	(4)	-	-	(4)
Exchange differences and other changes	-	(1)	-	-	(1)	-	3	-	-	3
Plan assets at year end	-	73	-	-	73	-	81	-	-	81
Net liability	39	80	22	67	208	36	95	26	89	246

Other provisions for long-term employee benefits of €89 million (€67 million December 31, 2018) related to the voluntary redundancy incentive plan for €56 million (€36 million at December 31, 2018), other foreign long-term plans for €27 million (€24 million at December 31, 2018), jubilee awards for €6 million (€6 million at December 31, 2018) and the long-term incentive plan for an insignificant amount (€1 million at December 31, 2018).

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

(€ million)	Dec. 31, 2018					Dec. 31, 2019				
	Post-employment benefits (TFR)	Foreign defined benefit plans	FISDE and other foreign health plans	Other long-term employee benefits	Total	Post-employment benefits (TFR)	Foreign defined benefit plans	FISDE and other foreign health plans	Other long-term employee benefits	Total
Current cost	-	14	1	5	20	-	14	-	41	55
Past service cost and gains/losses arising from termination	-	(3)	-	29	26	-	(1)	2	(1)	-
Net interest expense (income):										
- interest expense on obligation	1	3	-	1	5	1	4	-	-	5
- interest income on plan assets	-	(1)	-	-	(1)	-	(2)	-	-	(2)
Total net interest expense (income)	1	2	-	1	4	1	2	-	-	3
<i>of which recognised in personnel expenses</i>	-	-	-	1	1	-	-	-	-	-
<i>of which recognised in finance income (expense)</i>	1	2	-	-	3	1	2	-	-	3
Remeasurements of long-term plans	-	-	-	(3)	(3)	-	-	-	5	5
Total	1	13	1	32	47	1	15	2	45	63
<i>of which recognised in personnel expenses</i>	-	11	1	32	44	-	13	2	45	60
<i>of which recognised in finance income (expense)</i>	1	2	-	-	3	1	2	-	-	3

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

(€ million)	2018				2019			
	Post-employment benefits (TFR)	Foreign defined benefit plans	FISDE and other foreign health plans	Total	Post-employment benefits (TFR)	Foreign defined benefit plans	FISDE and other foreign health plans	Total
Remeasurements:								
- actuarial gains and losses arising from changes in demographic assumptions	-	(2)	-	(2)	-	1	-	1
- actuarial gains and losses arising from changes in financial assumptions	-	(3)	-	(3)	1	12	(1)	12
- experience adjustments	-	-	2	2	(1)	4	4	7
- return on plan assets	-	3	-	3	-	(3)	-	(3)
Total	-	(2)	2	-	-	14	3	17

Plan assets consisted of the following:

(€ million)	Cash and cash equivalents	Equity instruments	Debt instruments	Property	Derivative financial instruments	Mutual funds	Assets held by insurance companies	Structured debt securities	Other assets	Total
Plan assets:										
- prices quoted in active markets	10	12	25	3	9	7	12	-	3	81
- prices not quoted in active markets	-	-	-	-	-	-	-	-	-	-
Total	10	12	25	3	9	7	12	-	3	81

The main actuarial assumptions used in the measurement of benefit obligations at year end and the estimate of costs expected for the following year were as follows:

		Post-employment benefits (TFR)	Foreign defined benefit plans	FISDE and other foreign health plans	Other long-term employee benefits
2018					
Main actuarial assumptions:					
- discount rates	(%)	1.50	0.90-15.60	1.50-7.50	0.20-7.50
- growth rate of salary increase	(%)	2.00	1.00-10.83	-	0.00-6.00
- expected rate of return on plan assets	(%)	-	0.90-7.50	-	-
- inflation rate	(%)	1.50	0.90-14.40	1.50-5.00	1.50-5.00
- life expectancy at 65 years	(years)	-	15-25	20-25	-
2019					
Main actuarial assumptions:					
- discount rates	(%)	0.85	0.15-11.60	1.20-6.70	0.00-6.70
- growth rate of salary increase	(%)	1.35	1.00-6.00	-	1.50-5.00
- expected rate of return on plan assets	(%)	-	0.15-6.70	-	-
- inflation rate	(%)	0.85	1.00-11.30	1.00-5.00	0.00-5.00
- life expectancy at 65 years	(years)	-	15-25	20-25	-

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

		Eurozone	Rest of Europe	Africa	Other
2018					
Discount rates	(%)	0.20-1.50	0.90-2.70	3.70-15.60	2.90-9.00
Growth rate of salary increase	(%)	0.00-2.00	2.75	3.00-5.20	2.36-10.83
Inflation rate	(%)	1.50	0.90-3.25	3.70-14.40	2.00-5.00
Life expectancy at 65 years	(years)	22-25	15-25	15	17
2019					
Discount rates	(%)	0.00-1.20	0.15-2.30	2.60-11.60	1.90-7.25
Growth rate of salary increase	(%)	2.00	1.00-2.25	3.00-4.10	2.00-8.00
Inflation rate	(%)	0.00-1.50	1.00-3.10	2.60-11.30	2.60-5.00
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, or based on government bond yields if this is not the case.

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 main actuarial assumptions at year end were as follows:

(€ million)	Discount rate		Inflation rate	Growth rate of salary increase	Rate of pension increase	Growth rate of health cost increase
	0.5% increase	0.5% decrease	0.5% increase	0.5% increase	0.5% increase	1% increase
Impact on defined benefit obligation (DBO)	(16)	17	3	6	1	2
Post-employment benefits (TFR)	(2)	2	-	-	-	-
Foreign defined benefit plans	(10)	11	3	5	1	-
FISDE and other foreign health plans	(2)	2	-	-	-	2
Other 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 expected amount of contributions to be paid to foreign defined benefit plans in the subsequent year is €3 million.

The maturity profile of employee benefit plan obligations is as follows:

(€ million)	Post-employment benefits (TFR)	Foreign defined benefit plans	FISDE and other foreign health plans	Other long-term employee benefits
2020	1	10	1	23
2021	1	9	1	18
2022	2	10	1	15
2023	1	10	1	7
2024	2	10	1	3
After	11	56	6	7

The weighted average duration of obligations is as follows:

(years)	Post-employment benefits (TFR)	Foreign defined benefit plans	FISDE and other foreign health plans	Other long-term employee benefits
2018	10	12	15	6
2019	10	13	13	5

26 Derivative financial instruments

(€ million)	Dec. 31, 2018		Dec. 31, 2019	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
Derivatives qualified for hedge accounting				
<i>Interest rate contracts (Spot component)</i>				
- purchases	-	1	-	2
- sales	-	-	-	-
<i>Currency forwards (Spot component)</i>				
- purchases	4	5	8	(2)
- sales	3	37	12	3
<i>Currency forwards (Forward component)</i>				
- purchases	2	-	(1)	6
- sales	(1)	18	(4)	12
<i>Commodity forwards (Forward component)</i>				
- purchases	-	1	2	-
- sales	-	-	-	-
Total derivatives qualified for hedge accounting	8	62	17	21
Derivatives not qualified for hedge accounting				
<i>Currency forwards (Spot component)</i>				
- purchases	2	4	3	3
- sales	6	21	6	8
<i>Currency forwards (Forward component)</i>				
- purchases	1	(1)	-	2
- sales	(1)	10	(1)	6
<i>Commodity forwards (Forward component)</i>				
- purchases	-	-	-	-
- sales	-	-	-	-
Total derivatives not qualified for hedge accounting	8	34	8	19
Total derivatives	16	96	25	40
Of which:				
- current	16	86	23	38
- non-current (includes IRS, Note 23 "Analyses of net financial debt")	-	10	2	2

The derivative contracts' fair value hierarchy is level 2.

Purchase and sale commitments on derivatives are detailed as follows:

(€ million)	Dec. 31, 2018		Dec. 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Purchase commitments				
Derivatives qualified for hedge accounting:				
- interest rate contracts	-	150	-	150
- currency contracts	250	424	452	1,391
- commodity contracts	-	21	-	23
Derivatives not qualified for hedge accounting:				
- currency contracts	214	438	354	388
	464	1,033	806	1,952
Sale commitments				
Derivatives qualified for hedge accounting:				
- currency contracts	342	1,330	707	596
Derivatives not qualified for hedge accounting:				
- currency contracts	566	1,297	524	875
	908	2,627	1,231	1,471

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, 2019, 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 €2 million (€1 million at December 31, 2018) relating to the fair value of an interest rate swap has been recorded under Note 23 "Analyses of net financial debt". The fair value of interest rate swaps was determined by comparing the net present value at contractual conditions of swaps outstanding at December 31, 2019 with their present value recalculated at year-end market conditions. The model used is the Net Present Value model, which is based on EUR forward interest rates.

Cash flow hedging transactions related to forward purchase and sale transactions (forwards, outright and currency swaps).

The cash flows and the income statement impact of hedged highly probably forecast transactions at December 31, 2019 are expected to occur up until 2021.

During 2019, there were no significant cases of hedged items being no longer considered highly probable.

The positive fair value of derivatives qualified for hedge accounting at December 31, 2019 totalled €17 million (€8 million at December 31, 2018). For these derivatives, the spot component, amounting to €20 million (€7 million at December 31, 2018), was suspended in the hedging reserve for an amount of €15 million (€6 million at December 31, 2018) and recorded as financial income and expense for €5 million (€1 million at December 31, 2018), while the forward component, not designated as a hedging instrument, was recorded as financial income and expense for -€5 million (€1 million at December 31, 2018).

The negative fair value on derivative hedging contracts at December 31, 2019, amounts to €21 million (€62 million at December 31, 2018). The spot component of these derivatives of €1 million was recorded as financial income and expense for €1 million (-€4 million at December 31, 2018), no spot component was suspended in the hedging reserve (€46 million at December 31, 2018), while the forward component was recorded as financial income and expense for €18 million (€18 million at December 31, 2018).

With regard to commodities contracts, the fair value of €2 million was suspended in the hedging reserve.

The change in the hedging reserve between December 31, 2018 and December 31, 2019 detailed below was due to fair value changes in hedges that were effective for the whole year, or 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, 2018	Profit for the period	Loss for the period	EBITDA adjusted profits	EBITDA adjusted losses	Gains due to cancellation of underlying transactions	Losses due to cancellation of underlying transactions	Dec. 31, 2019
Exchange rate hedge reserve								
Saipem SpA	(32)	52	(78)	(81)	119	(1)	1	(20)
Saipem SA	(1)	11	(13)	(8)	16	(1)	-	4
Sofresid SA	-	-	(1)	-	1	-	-	-
Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda	(3)	3	(7)	(1)	6	(1)	1	(2)
Saipem Ltd	(2)	14	(13)	(11)	10	-	-	(2)
Saipem Mistr for Petroleum Services (S.A.E.)	(6)	6	(10)	(4)	13	(1)	1	(1)
Servizi Energia Italia SpA	(2)	1	(4)	(2)	7	-	1	1
Saimexicana SA de Cv	-	1	(1)	(1)	1	-	-	-
Snamprogetti Saudi Arabia Co Ltd Llc	-	9	(2)	-	1	-	-	8
Saudi Arabian Saipem Ltd	(1)	-	(1)	-	1	-	-	(1)
SPCC JV SA	-	9	(7)	(4)	2	-	-	-
Saipem America Inc	-	1	(1)	(1)	1	-	-	-
Saipem Contracting Netherlands BV	-	2	(3)	(1)	2	-	-	-
Total exchange rate hedge reserve	(47)	109	(141)	(114)	180	(4)	4	(13)
Commodity hedge reserve								
Saipem Ltd	-	-	-	-	-	-	-	-
Snamprogetti Saudi Arabia Co Ltd Llc	(1)	2	-	-	1	-	-	2
Total commodity hedge reserve	(1)	2	-	-	1	-	-	2
Interest rate hedge reserve								
Saipem SpA	(1)	-	(1)	-	-	-	-	(2)
Total interest rate hedge reserve	(1)	-	(1)	-	-	-	-	(2)
Total hedge reserve	(49)	111	(142)	(114)	181	(4)	4	(13)

During 2019, core business revenue and expenses were adjusted by a net negative amount of €67 million to reflect the effects of hedging.

Information on hedged risks and carrying amounts of financial instruments and the related effect on income statement and equity are provided in Note 30 "Guarantees, commitments and risks". Information on hedging policy is provided in Note 3 "Accounting policies" in the "Financial risk management" section.

27 Assets held for sale

In February 2019, Saipem SA completed the sale of its stake in Tecnoprojecto International Projectos and Realizações Industriais SA. As of December 31, 2019 there were no assets held for sale.

28 Equity

Non-controlling interests

Non-controlling interests at December 31, 2019 amounted to €93 million (€74 million at December 31, 2018).

The composition of the non-controlling interests is shown below.

(€ million)	Profit (loss) for the year		Equity	
	2018	2019	2018	2019
ER SAI Caspian Contractor Llc	58	86	65	90
Saudi Arabian Saipem Ltd	4	-	-	-
Snamprogetti Engineering & Contracting Co Ltd	-	-	7	-
Other	-	-	2	3
Total	62	86	74	93

During 2019, it should be noted that Snamprogetti Netherlands BV acquired a 30% interest and of Snamprogetti Engineering & Contracting Co Ltd, which is therefore entirely held by the Group as of December 31, 2019. The following table summarises the effect of the changes.

(€ million)	2019
Carrying amount of NCI acquired	7
Consideration paid to non-controlling parties	15
Decrease in equity attributable to the owners of the parent	(8)

The decrease in equity attributable to the owners of the parent includes:

- > a decrease in other reserves of €7 million, and
- > a decrease in the translation reserve of €1 million.

Equity attributable to the owners of the parent

Equity attributable to the owners of the parent at December 31, 2019 amounted to €4,032 million (€3,962 million at December 31, 2018) and was as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Share capital	2,191	2,191
Share premium	553	553
Legal reserve	88	88
Hedging reserve	(40)	(10)
Fair value reserve	(3)	1
Translation reserve	(107)	(21)
Actuarial reserve	(21)	(36)
Other	(39)	(46)
Retained earnings	1,907	1,395
Profit (loss) for the year	(472)	12
Negative reserve for treasury shares in portfolio	(95)	(95)
Total	3,962	4,032

Equity attributable to the owners of the parent at December 31, 2019 included distributable reserves of €2,004 million.

Some of these reserves 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 (€22 million).

Share capital

At December 31, 2019, the share capital of Saipem SpA, fully paid-up, amounted to €2,191 million, corresponding to 1,010,977,439 shares, none with a nominal amount, of which 1,010,966,841 are ordinary shares and 10,598 savings shares.

Share premium

This interim amounts to €553 million at December 31, 2019 (€553 million at December 31, 2018).

Other reserves

At December 31, 2019, "Other reserves" amounted to a -€24 million (-€122 million at December 31, 2018) and consisted of the following items:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Legal reserve	88	88
Hedging reserve	(40)	(10)
Fair value reserve	(3)	1
Translation reserve	(107)	(21)
Actuarial reserve	(21)	(36)
Other	(39)	(46)
Total	(122)	(24)

Legal reserve

At December 31, 2019, the legal reserve stood at €88 million. This represents the portion of profits of the parent Saipem SpA, accrued as per Article 2430 of the Italian Civil Code, that cannot be distributed as dividends.

Hedging reserve

This reserve showed a negative balance at year end of €10 million (negative balance of €40 million at December 31, 2018), which related to the fair value of interest rate swaps, commodity hedges and the spot component of foreign exchange risk hedges at December 31, 2019.

The hedging reserve is shown net of tax effects of €3 million (€9 million at December 31, 2018).

Fair value reserve

The positive reserve of €1 million includes the fair value of available-for-sale financial instruments.

Translation reserve

This reserve amounted to a -€21 million (-€107 million at December 31, 2018) and related to exchange differences arising from the translation into euro of financial statements denominated in currencies other than euro (mainly the US dollar). The change is mainly due to the change in the functional currency of a subsidiary.

Actuarial reserve

This reserve has a negative balance of €36 million (-€21 million at December 31, 2018), net of the tax effect of €10 million.

This reserve, in accordance with the provisions of IAS 19, includes the actuarial gains and losses relative to the employee defined benefit plans. These remeasurements are not allocated to the income statement.

Other

Other with a negative balance of €46 million (negative for €39 million at December 31, 2018), consisted of the following items:

- > positive for €2 million with regard to the revaluation reserve consisting of the positive revaluation balance following the application of Article 26 of Law No. 413 of December 30, 1991 (in the case of distribution, 5% of the reserves contribute to forming the taxable profit of the Company and are subject to the tax rate of 24%);
- > negative for €48 million for the effect recognised as a reserve following the acquisition of a non-controlling interest in consolidated subsidiaries.

Negative reserve for treasury shares in portfolio

The negative reserve amounts to €95 million (€95 million at December 31, 2018) and it includes the value of treasury shares for the implementation of long-term incentive plans for the Group's Senior Managers.

The breakdown of treasury shares is as follows:

	Number of shares	Average cost (€)	Total cost (€ million)	Share capital (%)
Treasury shares held at January 1, 2019	14,756,335	6.446	95	1.46
Purchases in 2019	-	-	-	-
Allocation	(32,130)	-	-	-
Treasury shares held at December 31, 2019	14,724,205	6.446	95	1.46

As at December 31, 2019, the share capital amounted to €2,191,384,693. On the same day, the number of shares in circulation was 996,253,234.

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, 2018		Dec. 31, 2019	
	Profit (loss) for the year	Equity	Profit (loss) for the year	Equity
As reported in Saipem SpA's financial statements	(326)	3,141	(85)	3,062
Difference between the equity, including the results for the year, with respect to the carrying value of investment in consolidated companies	32	544	34	549
Consolidation adjustments, net of tax effects:				
- difference between purchase cost and underlying carrying amount of equity	(58)	739	(2)	727
- elimination of unrealised intra group profits	29	(258)	28	(236)
- other adjustments	(87)	(130)	123	23
Total equity	(410)	4,036	98	4,125
Non-controlling interests	(62)	(74)	(86)	(93)
As reported in the consolidated financial statements	(472)	3,962	12	4,032

The item "Other adjustments" includes mainly: (i) consolidated entries aiming to align the profit margins of contracts affecting more than one subsidiary, the individual progress of which may not have uniform economic/temporal development synchronised to the progress of the consolidated contract; (ii) consolidated entries to reflect and align any impairments deriving from impairment tests.

29 Additional information

Disclosure on the statement of cash flows

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Analysis of disposals of entities no longer included in the consolidation scope and businesses units		
Current assets	-	1
Non-current assets	-	-
Net financial debt	-	-
Current and non-current liabilities	-	(1)
Net effect of disposals	-	-
Fair value of interest after loss of control	-	-
Gain (loss) on disposals	-	-
Non-controlling interests	-	-
Total sale price	-	-
less:		
Cash and cash equivalents	-	-
Cash flows from disposals	-	-

Disposals in 2019 concern the sale of a business unit by Sofresid Engineering SA.

30 Guarantees, commitments and risks

Guarantees

Guarantees amounted to €7,234 million (€5,461 million at December 31, 2018), and were as follows:

(€ million)	Dec. 31, 2018			Dec. 31, 2019		
	Unsecured	Other personal guarantees	Total	Unsecured	Other personal guarantees	Total
Joint ventures and associates	207	173	380	164	148	312
Consolidated companies	47	234	281	60	373	433
Own	-	4,800	4,800	-	6,489	6,489
Total	254	5,207	5,461	224	7,010	7,234

Other personal guarantees issued for consolidated companies amounted to €373 million (€234 million at December 31, 2018) 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 39 "Related party transactions".

Commitments

Saipem SpA has commitments with clients and/or other beneficiaries (financial and insurance institutions, export credit agencies) relating to the fulfilment of contractual obligations entered into by itself and/or by its subsidiaries or associates in the event of non-performance and payment of any damages arising from non-performance.

These commitments, which are performance obligations, guarantee contracts whose overall value amounted to €62,105 million (€46,040 million at December 31, 2018), including both work already performed and the relevant portion of the backlog of orders at December 31, 2019.

The repayment obligations of bank loans granted to Saipem Group companies are generally supported by guarantees issued by the parent company Saipem SpA and other Group companies. The repayment obligations of the Group's bond issues are covered by guarantees issued by the parent company Saipem SpA, and other Group companies.

Risk management

For information on risk management, both financial and industrial, please refer to the analytical description in Note 3 "Accounting policies" in the "Financial risk management" section and to the "Risk management" section in the Directors' Report.

Additional information on financial instruments

FINANCIAL INSTRUMENTS - CARRYING AMOUNTS AND EFFECT ON INCOME STATEMENT AND EQUITY

The carrying amounts and effect on income statement and equity of financial instruments were as follows:

(€ million)	Carrying amount	Income (expense) recorded in the income statement	Income (expense) recorded to other items of comprehensive income
Financial instruments held for trading			
Non-hedging derivatives ^(a)	(11)	(82)	-
Financial instruments measured at fair value			
Bonds	87	-	1
Financial fixed assets			
Equity investments carried at fair value	-	-	-
Receivables and payables and other assets (liabilities) measured at amortised cost			
Trade receivables and other assets ^(b)	2,601	(70)	-
Loan assets ^{(c) (g)}	265	-	-
Trade payables and other liabilities ^(d)	2,528	6	-
Contract liabilities	1,848	-	-
Loans and borrowings ^{(e) (h)}	3,702	(119)	-
Net hedging derivative assets (liabilities) ^(f)	(4)	(67)	36

(a) The income statement effects relate only to the income (expense) indicated in Note 33 "Financial income (expense)".

(b) The effects on the income statement were recognised in the "Net reversals of impairment losses (impairment losses) on trade receivables and other assets" for €60 million of losses and in the "Financial income (expense)" for €10 million of losses (relating to currency translations gains (losses) arising from adjustments to the year-end exchange rate).

(c) There are no income statement effects recorded in the item "Financial income (expense)".

(d) The income statement effects of €6 million of income relating to currency translation gains/losses arising from adjustments to the year-end exchange rate were recognised in the "Financial income (expense)".

(e) The income statement effects of €5 million of losses relating to leases (currency translation gains/losses arising from adjustments to the year-end exchange rate) and of €88 million of losses (financial income (expense) related to net financial debt not related to leases) and for €26 million of losses (financial income (expense) related to net financial debt related to lease following the IFRS 16-effect) were recognised in the "Financial income (expense)".

(f) Income statement effects of €67 million of losses were recognised in the "Core business revenue" and in "Purchases, services and other costs".

(g) The item includes current and non-current lease assets amounting to €16 million.

(h) The item includes current and non-current lease liabilities amounting to €626 million.

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, as summarised below, 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 derivatives at year end.

INTEREST RATE RISK MANAGEMENT

To face the risk of interest rate variations, the Group has entered into "Interest Rate Swap" (IRS) contracts with other banks.

Pursuant to these contracts it was agreed to exchange with the counterparts, at set deadlines, the difference between the fixed and variable rates, calculated on the basis of a reference notional value. The following table shows the relevant data referring to the Interest Rate Swap contracts with other banks, effective at the end of the year:

		Dec. 31, 2018	Dec. 31, 2019
Notional amount	(€ million)	150	150
Weighted average buying rate	(%)	(0.316)	(0.408)
Weighted average selling rate	(%)	0.129	0.129
Weighted average maturity	(years)	3	2

Average variable 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 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.

The market value of this type of contract at December 31, 2019 shows a theoretical liability of €1.5 million. The underlying transactions are expected to occur by November 2023.

EXCHANGE RATE RISK MANAGEMENT

The Group enters into various types of exchange rate derivatives to manage its currency 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, 2018	Notional amount at Dec. 31, 2019
Forward foreign exchange contracts	2,209	117

The table below shows forward foreign exchange contracts and other instruments used to manage the currency risk for the principal currencies.

(€ million)	Notional amount at Dec. 31, 2018		Notional amount at Dec. 31, 2019	
	Purchases	Sales	Purchases	Sales
AED	-	10	5	7
AUD	-	23	54	1
CAD	5	5	-	15
CHF	-	2	2	3
CLP	63	15	32	22
EUR	188	-	787	-
GBP	133	30	85	14
IDR	-	-	84	-
JPY	2	1	4	12
KWD	-	451	33	428
MXN	-	47	-	30
NOK	5	4	29	14
PLN	-	-	-	23
RON	2	3	-	6
RUB	1	7	3	14
SAR	90	737	185	598
SGD	146	20	1	12
THB	30	30	-	19
USD	661	2,150	1,281	1,484
Total	1,326	3,535	2,585	2,702

The table below shows the hedged cash flows at December 31, 2019, by time period of occurrence and expressed in euro.

(€ million)	First quarter 2020	Second quarter 2020	Third quarter 2020	Fourth quarter 2020	2021 and beyond	Total
Revenue	903	615	443	258	328	2,547
Expenses	717	504	444	396	1,123	3,184

COMMODITY PRICE RISK

The Group only enters into commodity contracts with the purpose of managing its commodity price risk exposure. The following table shows hedged cash flows at December 31, 2019 by time period of occurrence:

(€ million)	First quarter 2020	Second quarter 2020	Third quarter 2020	Fourth quarter 2020	2021 and beyond	Total
Expenses	-	-	13	9	1	23

Legal proceedings

The Group is a party in some judicial proceedings. Provisions for legal risks are made on the basis of information currently available, including information acquired by external consultants providing the Company with legal support. Information available to the Company for the purposes of risk assessment regarding criminal proceedings is by its very nature incomplete due to the principle of pre-trial secrecy. A brief summary of the most important disputes is provided below.

ALGERIA

Investigations in Italy: on February 4, 2011, the Milan Public Prosecutor's office, through Eni, requested the transmission of documentation pursuant to Article 248 of the Code of Criminal Procedure. This related to the activities of Saipem Group companies in Algeria in connection with an allegation of international corruption. The crime of "international corruption" specified in the request is one of the offences punishable under Legislative Decree No. 231 of June 8, 2001 in connection with the direct responsibility of collective entities for certain crimes committed by their own employees.

The collection of documentation was commenced in prompt compliance with the request, and on February 16, 2011, Saipem filed the material requested.

On November 22, 2012, Saipem received a notification of inquiry from the Milan Public Prosecutor's office related to alleged unlawful administrative acts arising from the crime of international corruption pursuant to Article 25, paragraphs 2 and 3 of Legislative Decree No. 231/2001, together with a request to provide documentation regarding a number of contracts connected with activities in Algeria. This request was followed by notification of a seizure order on November 30, 2012, two further requests for documentation on December 18, 2012 and February 25, 2013 and the issue of a search warrant on January 16, 2013.

On February 7, 2013, a search was conducted, including at offices belonging to Eni SpA, to obtain additional documentation relating to intermediary agreements and subcontracts entered into by Saipem in connection with its Algerian projects. The subject of the investigations are allegations of corruption which, according to the Milan Public Prosecutor, occurred up until and after March 2010 in relation to a number of contracts the Company was awarded in Algeria.

Several former employees of the Company were involved in the proceedings, including the former Deputy Chairman and CEO, the former Chief Operating Officer of the Engineering & Construction Business Unit and the former Chief Financial Officer. The Company collaborated fully with the Prosecutor's Office and rapidly implemented decisive managerial and administrative restructuring measures, irrespective of any liability that might result in the course of the proceedings. In agreement with the Board of Statutory Auditors and the Internal Control Bodies, and having duly informed the Prosecutor's Office, Saipem looked into the contracts that are subject to investigation, and to this end appointed an external legal firm. On July 17, 2013, the Board of Directors analysed the conclusions reached by the external consultants following an internal investigation carried out in relation to a number of brokerage contracts and subcontracts regarding projects in Algeria. The internal investigation was based on the examination of documents and interviews of personnel from the Company and other companies in the Group, excluding those, that to the best knowledge of the Company, would be directly involved in the criminal investigation so as not to interfere in the investigative activities of the Prosecutor. In July 2013, the Board of Directors, confirming its full cooperation with the investigative authorities, decided to convey the findings of the external consultants to the Public Prosecutor of Milan, for any appropriate assessment and initiatives under its responsibility in the wider context of the ongoing investigation. The consultants reported to the Board: (i) that they found no evidence of payments to Algerian public officials through the brokerage contracts or subcontracts examined; (ii) that they found violations, deemed detrimental to the interests of the Company, of internal rules and procedures – in force at the time – in relation to the approval and management of brokerage contracts and subcontracts examined and a number of activities in Algeria.

The Board decided to initiate legal action against certain former employees and suppliers in order to protect the interests of the Company, reserving the right to take any further action necessary should additional information emerge.

On June 14, 2013, January 8, 2013 and July 23, 2014 the Milan Public Prosecutor's office submitted requests for extensions to the preliminary investigations. On October 24, 2014, notice was received of a request from the Milan Public Prosecutor to gather evidence before trial by way of questioning the former Chief Operating Officer of the Saipem Engineering & Construction Business Unit and another former manager of Saipem, who are both under investigation in the criminal proceedings. After the request was granted, the Judge for the Preliminary Hearing in Milan set hearings for December 1 and 2, 2014. On January 15, 2015, Saipem SpA defence counsel received notice from the Milan Public Prosecutor's office of the conclusion of preliminary investigations, pursuant to Article 415-bis of the Italian code of criminal procedure. Notice was also received by eight physical persons and the legal person of Eni SpA. In addition to the crime of "international corruption" specified in the request from the Milan Public Prosecutor's office, the notice also contained an allegation against seven physical persons of a violation of Article 3 of Legislative Decree No. 74 of March 10, 2000 concerning the filing of fraudulent tax returns, in connection with the recording in the books of Saipem SpA of "*brokerage costs deriving from the agency agreement with Pearl Partners signed on October 17, 2007, as well as Addendum No. 1 to the agency agreement entered into August 12, 2009*", which is alleged to have led subsequently "*to the inclusion in the consolidated tax return of Saipem SpA of profits that were lower than the real total by the following amounts: 2008: -€85,935,000; 2009: -€54,385,926*".

Criminal proceedings in Italy: on February 26, 2015, Saipem SpA defence counsel received notice from the Judge for the Preliminary Hearing of the scheduling of a preliminary hearing, together with a request for committal for trial filed by the Milan Public Prosecutor's office on February 11, 2015. Notice was also received by eight physical persons and the legal person of Eni SpA. The hearing was scheduled by the Judge for the Preliminary Hearing for May 13, 2015. During the hearing, the Revenue Office appeared as plaintiff in the proceedings whereas other requests to be admitted as plaintiff were rejected.

On October 2, 2015, the Judge for the Preliminary Hearing rejected the questions of unconstitutionality and those relating to the statute of limitations presented by the defence attorneys and determined as follows:

- (i) ruling not to proceed for lack of jurisdiction in regard to one of the accused;
- (ii) ruling of dismissal in regard to all of the accused in relation to the allegation that the payment of the commissions for the MLE project by Saipem (approximately €41 million) may have served to enable Eni to acquire the Algerian ministerial approvals for the acquisition of First Calgary and for the expansion of a field in Algeria (CAFC). This measure also contains the decision to acquit Eni, the former CEO of Eni and an Eni executive in regard to any other charge;
- (iii) a decree that orders trial, among others, for Saipem and three former Saipem employees (the former Deputy Chairman and CEO, the former Chief Operating Officer of the Engineering & Construction Business Unit and the former Chief Financial Officer) with reference to the charge of international corruption formulated by the Public Prosecutor's office according to which the accused were complicit in enabling Saipem to win seven contracts in Algeria on the basis of criteria of mere

favouritism. For the physical persons only (not for Saipem) the committal for trial was pronounced also with reference to the allegation of fraudulent statements (tax offences) brought by the Public Prosecutor's office.

On the same date, at the end of the hearing relating to a section of the main proceedings, the Judge for the Preliminary Hearing of Milan issued a plea bargaining sentence in accordance with Article 444 of the code of criminal procedure for a former executive of Saipem SpA.

On November 17, 2015, the Public Prosecutor of Milan and the Prosecutor General at the Milan Court of Appeal filed an appeal with the Court of Cassation against the first two measures. On February 24, 2016 the Court of Cassation upheld the appeal lodged by the Public Prosecutor of Milan and ordered the transmission of the trial documents to a new Judge for the Preliminary Hearing at the Court of Milan.

With reference to this branch of the proceedings (the so-called "Eni branch"), on July 27, 2016, the new Judge for the Preliminary Hearing ordered the committal for trial of all the accused parties.

On November 11, 2015, on the occasion of publication of the 2015 corporate liability report of the office of the Public Prosecutor in Milan, it was affirmed that: *"a ruling was recently issued by the Judge for the Preliminary Investigation for the preventive seizure of assets belonging to the accused parties for the sum of €250 million. The ruling confirms the freezing previously decided upon by the foreign authorities of monies deposited in bank accounts in Singapore, Hong Kong, Switzerland and Luxembourg, totalling in excess of €100 million"*. While Saipem is not the target of any such measures, it has come to its attention that the seizure in question involves the personal assets of the Company's former Chief Operating Officer and two other persons accused.

At the same time, following the decree ordering the trial pronounced on October 2, 2015 by the Judge for the Preliminary Hearing, the first hearing before the Court of Milan in the proceedings of the so-called "Saipem branch" was held on December 2, 2015. During said hearing, Sonatrach asked to be admitted as plaintiff only against the physical persons charged. The Movimento cittadini algerini d'Italia e d'Europa likewise put forward a request to be admitted as plaintiff. The Revenue Office confirmed the request for admission as plaintiffs only against the physical persons accused of having made fraudulent tax returns. At the hearing of January 25, 2016, the Court of Milan rejected the request put forward by Sonatrach and the Movimento cittadini algerini d'Italia e di Europa to be admitted as plaintiff. The Court adjourned to February 29, 2016, reserving the right to pass judgement on the claims put forward by the accused of invalidity of the committals to trial.

At the hearing of February 29, 2016, the Court combined the proceedings with another pending case against a sole defendant (a physical person against whom Sonatrach had appeared as a plaintiff) and rejected the claims of invalidity of the committal to trial, calling on the Public Prosecutor to reformulate the charges against a sole defendant and adjourning the hearing to March 21, 2016. The Court then adjourned the proceedings to the hearing of December 5, 2016 in order to assess whether to combine it with the proceedings described earlier (the so-called Eni branch) for which the Judge for the Preliminary Hearing ordered the committal for trial of all the accused parties on July 27, 2016.

With the order of December 28, 2016 the President of the Court of Milan authorised the abstention request of the Chairman of the Panel of judges.

At the hearing on January 16, 2017, the two proceedings (the so-called Saipem branch and the so-called Eni branch) were combined before a new panel appointed on December 30, 2016.

Once the hearings on evidence finished with the hearing of February 12, 2018, in the subsequent hearings of February 19, 2018 and February 26, 2018, the Public Prosecutor proceeded with the indictment.

Generic extenuating circumstances were not considered to be initially attributable to the defendants and, conversely, that the aggravating circumstance of the transnational crime allegedly subsisted, the Public Prosecutor formulated sentencing requests for the accused individuals.

With regard to Saipem SpA and Eni SpA the Public Prosecutor requested a fine of €900,000 as the sentence for each company. Furthermore, the Public Prosecutor requested a "seizure of assets", equal to currently seized assets, relating to some seizures previously carried out against certain natural persons accused. Therefore, the request for seizure of assets did not concern Saipem SpA.

At the hearing of March 5, 2018:

- (i) the Italian Revenue Agency has requested the conviction of only the physical persons indicted as was requested by the Public Prosecutor with the conviction of only the physical persons charged for compensation of the pecuniary and non-pecuniary damage in favour of the Italian Revenue Agency to be liquidated on an equitable basis and with a provisional amount of €10 million;
- (ii) Sonatrach has requested the conviction of the accused Samyr Ourayed and sentencing of the latter to the compensation of the damage to be liquidated in equitable way.

On September 19, 2018, the hearings dedicated to arguments by the defence and to the replies by the Public Prosecutor and the defence ended.

The first instance ruling of the Court of Milan: on September 19, 2018, the Court of Milan pronounced the first instance ruling. The Court of Milan convicted, among others, some former managers of Saipem SpA for international corruption offences and also sentenced Saipem SpA to pay the pecuniary fine of €400,000, considering it to be allegedly responsible for offences pursuant to Legislative Decree No. 231/2001 with reference to the crime of international corruption.

The former managers of Saipem SpA who were convicted by the Court of Milan had all left the Company between 2008 and 2012. The Court also ordered the confiscation of, as alleged profit from the crime, the total sum of approximately €197 million from all the individuals who were convicted (and among them some of the former managers of the Company).

The Court also ordered the confiscation of, as alleged price from the crime, the total sum of approximately €197 million from Saipem pursuant to Article 19 of Legislative Decree No. 231/2001.

From what emerged during the proceedings and the requests of the Public Prosecutor, at the date of the preparation of this report, a preventive seizure has already been in place in order to confiscate an amount totalling approximately €160 million from certain individuals – other than the Company – all convicted in the first instance ruling.

The first instance ruling of the Court is not enforceable. The reasons for the first instance ruling were filed by the Court of Milan on December 18, 2018.

The judgement before the Court of Appeal of Milan: on February 1, 2019, Saipem SpA challenged the first instance ruling before the Court of Appeal of Milan. Even the individuals convicted in the first instance have appealed the first instance ruling. The Public Prosecutor's Office of Milan also appealed the first instance ruling requesting, in a reversal of that ruling, that the conviction of Eni SpA, of the former Chief Executive Officer of Eni and of one of its managers *"be imposed by the Court of Appeal, as well as financial penalties and interdictory sanctions deemed lawful"*. The Public Prosecutor's Office of Milan has also requested a reversal of the contested ruling to *"condemn the company Saipem to financial penalties and interdictory sanctions deemed lawful"*. On February 14, 2019, Saipem's lawyers lodged a defence brief in which they pleaded: (i) the inadmissibility of the appeal by the Public Prosecutor of the Court's decision not to consider interdictory sanctions applicable to Saipem SpA; and/or (ii) the inapplicability of the interdictory sanctions requested by the Public Prosecutor's Office against Saipem SpA.

The beginning of the second instance proceedings was notified to Saipem's lawyers on June 18, 2019, through a writ of summons before the Court of Appeal of Milan. The hearings before the Court of Appeal were held on October 30, November 13 and 27, December 18 and 23, 2019 and January 15, 2020.

On January 15, 2020, the Court of Appeal of Milan fully upheld the appeal of Saipem SpA and of the individuals charged (including some former managers of Saipem who all left the Company between 2008 and 2012), stating, among other things, the absence of the administrative offence of Saipem SpA because of the inexistence of the alleged facts, revoking the confiscation of the price of the offence that was pronounced in the First Instance by the Court of Milan, pursuant to Article 19 of Legislative Decree No. 231/2001.

The reasons of the second instance ruling shall be filed by the Court within 90 days from January 31, 2020.

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 date of the preparation of this report, more than four years have passed since the deadline, no request for an extension has been received from the Department of Justice.

Proceedings in Algeria: in 2010, proceedings were initiated in Algeria regarding various matters and involving 19 parties investigated for various reasons (so-called "Sonatrach 1 investigation"). The Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures SpA ("Sonatrach") appeared as plaintiff in these proceedings and the Algerian Trésor Public also applied to appear as a plaintiff.

The Algerian company Saipem Contracting Algérie SpA ("Saipem Contracting Algérie") is also part of these proceedings regarding the manner in which the GK3 contract was awarded by Sonatrach. In the course of these proceedings, some bank accounts denominated in local currency of Saipem Contracting Algérie were frozen.

In particular, in 2012 Saipem Contracting Algérie received formal notice of the referral to the Chambre d'accusation at the Court of Algiers of an investigation underway into the company regarding allegations that it took advantage of the authority or influence of representatives of a government-owned industrial and trading company in order to inflate prices in relation to contracts awarded by that company. The GK3 contract was awarded in June 2009 and had an equivalent value of €433.5 million (at the exchange rate in effect when the contract was awarded).

At the beginning of 2013, the "Chambre d'accusation" ordered Saipem Contracting Algérie to stand trial and further ordered that the aforementioned bank accounts remain frozen. According to the prosecution, the price offered was 60% over the market price. The prosecution also claimed that, following a discount negotiated between the parties subsequent to the offer, this alleged increase was reduced by up to 45% of the price of the contract awarded. In April 2013 and in October 2014, the Algerian Supreme Court rejected a request to unfreeze the bank accounts that had been made by Saipem Contracting Algérie in 2010. The documentation was then transmitted to the Court of Algiers which, in the hearing of March 15, 2015, adjourned the proceedings to the hearing of June 7, 2015, during which, in the absence of certain witnesses, the Court officially handed over the case to a criminal court. The trial commenced with the hearing fixed for December 27, 2015. In the hearing of January 20, 2016, the Algiers Public Prosecutor requested the conviction of all 19 defendants accused in the "Sonatrach 1" trial.

The Algiers Public Prosecutor requested that Saipem Contracting Algérie be fined 5 million Algerian dinars (approximately €40,000 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 €40,000) 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 €30,000). 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 under Algerian law. The ruling also returned two bank accounts denominated in local currency to Saipem Contracting Algérie. These held a total of about €72 million (amount calculated at the exchange rate as at December 31, 2019), 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 thereof, the ruling of February 2, 2016 of the Court of Algiers was challenged in the Court of Cassation: by Saipem Contracting Algérie (which requested acquittal and had announced that it would challenge the decision); by the Prosecutor General (who had requested the imposition of a fine of 5 million Algerian dinars and the confiscation, requests that were rejected by the Court, which, as said, fined Saipem Contracting Algérie the lesser amount of about 4 million Algerian dinars); by the Trésor Civil (whose request to be admitted as plaintiff against Saipem Contracting Algérie had been – as already stated – rejected by the Court); by all the other parties sentenced, in relation to the cases concerning them.

Owing to these challenges, the decision of the Court of Algiers was fully suspended and pending the ruling of the Court of Cassation:

- > the payment is suspended of the fine of approximately €30,000; and
- > the unfreezing of the two banks accounts is suspended containing a total of about €71 million (amount calculated at the exchange rate as at December 31, 2019). Sonatrach has not challenged the decision of the Court, consistently with its request, accepted by the Court, to be allowed to claim compensation subsequently in civil proceedings. This civil action was not initiated by Sonatrach.

With the judgement handed down on July 17, 2019, the Algerian Court of Cassation has fully overruled the decision of the Tribunal of Algiers of February 2, 2016, meaning that the Tribunal of Appeal of Algiers will have to rule on the matter following a new trial. The future Tribunal of Appeal's decision can be challenged before the Algerian Court of Cassation.

The reasons for the judgement of the Algerian Court of Cassation were made available on October 7, 2019. The sentence of the Algerian Court of Cassation decrees the total annulment of the decision of the Court of Algiers of 2016, following the acceptance of the appeals filed by all applicants (including the appeal by Saipem Contracting Algérie). The beginning of the new proceedings before the Tribunal of Appeal is neither known nor predictable at the date of the preparation of this report.

In March 2013, the legal representative of Saipem Contracting Algérie was summoned to appear at the Court of Algiers, where he received verbal notification from the local investigating judge of the commencement of an investigation ("Sonatrach 2") underway "into Saipem for charges pursuant to Articles 25a, 32 and 53 of Anti-Corruption Law No. 01/2006". The investigating judge also requested documentation (Articles of Association) and other information concerning Saipem Contracting Algérie, Saipem and Saipem SA. After this summons, no further activities or requests followed.

On October 16 and 21, 2019, Saipem Contracting Algérie and the Algiers Branch of Snamprogetti SpA have been summoned by the investigating judge at the Supreme Court.

This investigation is in its initial phase, despite concerning events dating back to 2008 (award of the GNL3 Arzew contract). Saipem Contracting Algérie and the Algiers Branch of Snamprogetti SpA were further summoned on November 18, 2019 by the General Public Prosecutor at the Supreme Court of Algiers to provide information and documents relating to the GNL3 Arzew contract awarded by Sonatrach in 2008.

A further hearing of the representative of Saipem Contracting Algérie and the Algiers Branch of Snamprogetti SpA took place on November 18, 2019, at which the General Public Prosecutor of Algiers was provided with the information and documentation he had requested and asked to provide further documentation by December 4, 2019. Saipem Contracting Algérie and the Algiers Branch of Snamprogetti SpA promptly filed the documentation requested by the deadline of December 4, 2019.

The Algiers General Public Prosecutor also summoned a representative of Saipem SpA. On November 20, 2019, the General Public Prosecutor of Algiers informed Saipem Contracting Algérie and the Algiers Branch of Snamprogetti SpA that the Algerian Trésor Public has been admitted as plaintiff in the case under initial investigations.

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

Sonatrach and Saipem announce the Amicable Settlement of Mutual Differences.

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

ONGOING INVESTIGATIONS - PUBLIC PROSECUTOR'S OFFICE OF MILAN - BRAZIL

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

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

In particular, on June 19, 2015, Saipem do Brasil learned through the media of the arrest (in regard to allegations of money laundering, corruption and fraud) of a former associate, as a result of a measure taken by the Brazilian Public Prosecutor's office of Curitiba, in the framework of a judicial investigation in progress in Brazil since March 2014 ("Lava Jato" investigation). On July 29, 2015, Saipem do Brasil then learned through the press that, in the framework of the conduct alleged against the former associate of Saipem do Brasil, the Brazilian Public Prosecutor's office also alleges that Petrobras was unduly influenced in 2011 to award Saipem do Brasil a contract called "Cernambi" (for a value, at the current exchange rate, of approximately €56 million). This has been purportedly deduced from the circumstance that in 2011, in the vicinity of the Petrobras headquarters, said former

associate of Saipem do Brasil claims to have been the target of a robbery in which approximately 100,000 reais (approximately €26,000) just withdrawn from a credit institution were stolen from him. According to the Brazilian prosecutor, the robbery allegedly took place in a time period prior to the award of the aforesaid "Cernambi" contract.

Saipem SpA has cooperated fully with the investigations and has started an audit with the assistance of a third-party consultant. The audit examined the names of numerous companies and persons reported by the media as being under investigation by the Brazilian judicial authorities. The audit report, issued on July 14, 2016, recognised the absence of communications or documents relating to transactions and/or financial movements between companies of the Saipem Group and the personnel of Petrobras under investigation.

The witnesses heard in the criminal proceedings underway in Brazil against this former associate, as well as in the framework of the works of the parliamentary investigative committee set up in Brazil on the "Lava Jato" case, have stated that they were unaware of any irregularities regarding Saipem's activities.

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

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

The former Saipem do Brasil associate also stated that the Saipem Group did not pay any bribes because Saipem's compliance system prevented this from happening. That statement was confirmed by the former Petrobras official charged in the same proceeding. The former associate of Saipem do Brasil and the former Petrobras official charged in the same proceeding, while offering a reconstruction of the facts which was partially different, reported, that the possibility of some inappropriate payments was discussed with reference to certain contracts of Saipem do Brasil but in any case no payment was made by the Saipem Group. The former Saipem do Brasil associate and the former Petrobras official charged in the same proceeding stated that the contracts awarded by the client to the Saipem Group were won through regular bidding procedures. The proceedings in Brazil against the former associate of Saipem do Brasil and another two defendants has not yet ended with a final ruling. During the proceedings against the former associate of Saipem do Brasil, no evidence of irregularities emerged in the management of tenders assigned by Petrobras to Saipem Group and/or evidence of illegal payments by Saipem Group in relation to tenders assigned by Petrobras to Saipem Group and/or evidence of damages suffered by Petrobras in relation to tenders assigned to Saipem Group. Saipem Group has not been involved in this proceeding.

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

The audit report, issued on July 18, 2018, confirmed the absence of communications or documents relating to transactions and/or financial movements between companies of the Saipem Group and the personnel of Petrobras under investigation.

With the press release dated May 30, 2019, Saipem SpA has informed as follows:

"Saipem: notification of administrative proceedings in Brazil to the subsidiaries Saipem SA and Saipem do Brasil in relation to a contract awarded in 2011.

San Donato Milanese (Milan), May 30, 2019 - Saipem SpA informs that today its French subsidiary Saipem SA and its Brazilian subsidiary Saipem do Brasil were notified by the competent Brazilian administrative authority (Controladoria-Geral da União through the Corregedoria-Geral da União) about the opening of administrative proceedings with respect to alleged irregularities in relation to the award by the Brazilian oil company Petrobras, as leader of the "Consortium BMS 11", in December 2011, of the contract (whose value was equal to about Brazilian Real 249 million, currently equivalent to about €56 million) for the installation of the underwater gas pipeline connecting the Lula and Cernambi fields in Santos Basin.

Saipem SA and Saipem do Brasil will cooperate in the administrative proceedings by providing all the clarifications requested by the competent administrative authority and have confidence in the correctness of the award of the above mentioned contract and in the absence of circumstances to affirm the administrative liability of the companies".

As part of the aforementioned administrative proceedings, on June 21, 2019, Saipem do Brasil and Saipem SA presented their initial defence statements before the competent administrative authority (Controladoria-Geral da União through Corregedoria-Geral da União).

With a communication dated August 21, 2019, the competent administrative authority (Controladoria-Geral da União through Corregedoria-Geral da União) informed Saipem do Brasil and Saipem SA that, following the preliminary investigation carried out up to that moment, the administrative procedure has not been closed and invited Saipem do Brasil and Saipem SA to present further defence statements by September 20, 2019.

Saipem do Brasil and Saipem SA submitted their defence statements by the set deadline.

This administrative proceeding is currently ongoing.

PRELIMINARY INVESTIGATIONS IN PROGRESS - PUBLIC PROSECUTOR'S OFFICE AT THE COURT OF MILAN - IRAQ

On August 2, 2018, the Public Prosecutor of the Court of Milan notified Saipem SpA of a request for documents relating to previous activities (2010-2014) of Saipem Group in Iraq and in particular to relations with the Unaoil group. The request also contains information that – with regard to these past activities – Saipem SpA is subject to investigations for international corruption. In January 2019, the US Department of Justice, which claimed to have an ongoing investigation into the activities and relations of Unaoil for some time and to be aware of a pending investigation in Italy against Saipem SpA by the Public Prosecutor's Office of Milan, asked Saipem if it would be willing to provide "voluntary production" of documents relating to previous activities

of Saipem Group in Iraq with the involvement of Unaoil and, more in general, the previous between Saipem and the Unaoil Group. Saipem has confirmed that it is willing to provide such "voluntary production". The "voluntary production" is without prejudice to any question concerning possible US jurisdiction, an aspect for which the US Department of Justice has not indicated at the moment any supporting evidence, asking only for Saipem to cooperate in the assessments that the US Department of Justice has under way. Within the context of the aforementioned "voluntary production", Saipem SpA in March 2019, through its US lawyers, delivered to the US Department of Justice the files delivered in 2018 to the Milan Public Prosecutor's Office in order to fulfil the above-mentioned request for documents received on August 2, 2018.

ENIPOWER

As part of the inquiries commenced by the Milan Public Prosecutor (criminal proceedings 2460/2003 R.G.N.R. pending at the Milan Public Prosecutor's office) into contracts awarded by EniPower to various companies, Snamprogetti SpA (now Saipem SpA as engineering and procurement services contractor), together with other parties, were served a notice informing them that they were under investigation, pursuant to Article 25 of Legislative Decree No. 231/2001. Preliminary investigations ended in August 2007, with a favourable outcome for Snamprogetti SpA, which was not included among the parties still under investigation for whom committals for trial were requested. Snamprogetti subsequently brought proceedings against the physical and legal persons implicated in transactions relating to the Company and reached settlements with a number of parties that requested the application of settlement procedures. Following the conclusion of the preliminary hearing, criminal proceedings continued against former employees of the above companies, as well as against employees and managers of a number of their suppliers, pursuant to Legislative Decree No. 231/2001. Eni SpA, EniPower SpA and Snamprogetti SpA presented themselves as plaintiffs in the preliminary hearing. In the preliminary hearing related to the main proceeding of April 27, 2009, the judge for the preliminary hearing requested that all parties that did not request the application of plea agreements stand trial, with the exception of several parties for whom the statute of limitations now applied. In the hearing of March 2, 2010, the Court confirmed the admission as plaintiffs of Eni SpA, EniPower SpA and Saipem SpA against the defendants under the provisions of Legislative Decree No. 231/2001. The defendants of the other companies involved were also sued. Subsequently, at the hearing of September 20, 2011, sentence was passed which included several convictions and acquittals for numerous physical and legal defendants, the latter being deemed responsible for unlawful administrative acts, with fines being imposed and value confiscation for significant sums ordered. The Court likewise rejected the admission as plaintiffs of the parties accused of unlawful administrative acts pursuant to Legislative Decree No. 231/2001. The convicted parties challenged the above ruling within the set deadline. On October 24, 2013, the Milan Court of Appeal essentially confirmed the first instance ruling, which it modified only partially in relation to a number of physical persons, against whom it dismissed the charges, ruling that they had expired under the statute of limitations. The accused parties have filed an appeal with the Court of Cassation. On November 10, 2015, Criminal Section VI of the Supreme Court, in its ruling on the appeals lodged by the parties against the ruling of the Milan Court of Appeal, set aside the challenged ruling regarding legal persons, and the civil law rulings regarding physical persons and deferred a new ruling to another section of the Milan Court of Appeal which set the court date for November 28, 2017. At the hearing of November 28, 2017, the Court of Appeal, ruling at the time of postponement by the Court of Cassation, upheld the first instance judgement, partially modifying it, excluding the liability of two legal persons and declaring that it would not proceed against a defendant who had, the meantime, died, confirming the rest of the sentence by the Court of Appeal which was not subject to annulment by the Court of Cassation. On July 17, 2018, the Court of Appeal of Milan file the second degree ruling essentially leaving the decision-making apparatus of the contested sentence unchanged, thus confirming the decisions of the Milan Court of Appeal of October 24, 2013, also in relation to the plaintiffs. The Court of Appeal of Milan has reversed the decision of the sentence under appeal limited to only two legal persons for whom liability has been excluded and to one natural person for whom the offence was extinguished. Some parts of the trial were appealed to the Court of Cassation.

On November 6, 2019, the Court of Cassation ruled on the appeal lodged by some parties in the trial, partially upholding the appeal in relation to only one legal person, and simultaneously transferring the relevant decision to the Court of Appeal of Milan.

The Court of Cassation rejected the appeal filed by the other applicants, leaving the sentence of the Milan Court of Appeal of July 17, 2018 unchanged. The ruling of the Court of Cassation was filed on December 16, 2019.

FOS CAVAOU

With regard to the Fos Cavaou ("FOS") project for the construction of a regasification terminal, the client Société du Terminal Méthanier de Fos Cavaou ("STMFC", now Fosmax LNG) in January 2012 commenced arbitration proceedings before the International Chamber of Commerce in Paris ("Paris ICC") against the contractor STS [a French "société en participation" made up of Saipem SA (50%), Tecnimont SpA (49%) and Sofregaz SA (1%)]. On July 11, 2011, the parties signed a mediation memorandum pursuant to the rules of Conciliation and Arbitration of the Paris ICC. The mediation procedure ended on December 31, 2011 without agreement having been reached, because Fosmax LNG refused to extend the deadline.

The brief filed by Fosmax LNG in support of its request for arbitration included a demand for payment of approximately €264 million for damages allegedly suffered, penalties for delays and costs for the completion of works ("mise en régie"). Of the total sum demanded, approximately €142 million was for loss of profit, an item excluded from the contract except for cases of wilful misconduct or gross negligence. STS filed its defence brief, including a counterclaim for compensation for damage due to excessive interference by Fosmax LNG in the execution of the works and for the payment of extra work not approved by the client (and reserving the right to quantify the amount as the arbitration proceeds). On October 19, 2012, Fosmax LNG lodged a "Mémoire en demande". Against this, STS lodged its own Statement of Defence on January 28, 2013, in which it filed a counterclaim for €338 million. The final hearing was held on April 1, 2014. On the basis of the award issued by the Arbitration Panel on February 13, 2015, Fosmax LNG paid STS the sum of €84,349,554.92, including interest on April 30, 2015. 50% of this amount is due to Saipem SA. On June 26, 2015, Fosmax LNG challenged the award before the French Conseil d'Etat, requesting its annulment on the alleged basis that the Arbitration Panel had erroneously applied private law to the matter instead of public law. On November 18, 2015 a hearing was held before the Conseil d'Etat. Subsequently to the submission of the Rapporteur Public,

the judges concluded the discussion phase. The Rapporteur requested a referral to the Tribunal des Conflits. With its judgement of April 11, 2016, the Tribunal des Conflits held that the Conseil d'Etat had jurisdiction for deciding on the dispute regarding the appeal to overrule the arbitration award of February 12, 2015. On October 21, 2016, a hearing was held before the Conseil d'Etat and on November 9, the latter issued its own ruling, with which it partially nullified the award of February 13, 2015 for only the mise en régie costs (quantified by Fosmax in €36,359,758), stating that Fosmax should have relinquished such costs back to an arbitration tribunal, unless otherwise agreed by the parties.

Parallel with the aforementioned appeal before the Conseil d'Etat, on August 18, 2015, Fosmax LNG also filed an appeal with the Court of Appeal of Paris to obtain the annulment of the award and/or the declaration of nullity of the relevant exequatur, the enforceability of which had been recognised and of which Fosmax had been notified on July 24, 2015. On February 21, 2017, the Court of Appeal declared itself incompetent to decide on the annulment of the award and stated that it would postpone the subsequent decision on the alleged nullity of the exequatur. On July 4, 2017, the Court annulled the exequatur issued by the President of the Tribunal de grande instance and sentenced STS to pay the costs (€10,000) of the proceeding in favour of Fosmax.

On June 21, 2017, Fosmax notified Sofregaz, Tecnimont SpA and Saipem SA, of a request for arbitration, requesting that the aforementioned companies (as members of the société en participation STS) be jointly and severally condemned to pay the mise en régie costs as quantified above beyond delays and legal fees. The Arbitration Tribunal was officially constituted on January 19, 2018 when the Chairman was confirmed and, in accordance with the calendar agreed between the Parties, on April 13, 2018 Fosmax filed its Mémoire en demande in which it detailed its demands at €35,926,872 in addition to interest for late payments of approximately €4.2 million. STS filed its brief and response on July 13, 2018, with which it has made the counter-claim that Fosmax be ordered to pay €2,155,239 in addition to interest for loss of profit and €5,000,000 for non-material damage. Hearings were held from February 25 to 27, 2019 and the award is expected in the first months of 2020.

COURT OF CASSATION - CONSOB RESOLUTION NO. 18949 OF JUNE 18, 2014 - ACTIONS FOR DAMAGES

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

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

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

- > for the alleged crime under (i): the two Chief Executive Officers and the Chief Operating Officer of the Engineering & Construction Business Unit of Saipem SpA in office at the date of the press release of October 24, 2012, as they "through the press release dated October 24, 2012 issued on the occasion of the approval by the Board of Directors of the quarterly report as at September 30, 2012 and during the related conference call ..., they spread false news – which was incomplete and reticent – concerning the economic and financial situation of Saipem SpA, ..., capable of causing a significant alteration of the price of its ordinary shares"; and
- > for the alleged crimes under (ii) and (iii): the Chief Executive Officer and the Officer responsible for financial reporting, who was in office at the date of approval of the 2012 consolidated and statutory financial statements of Saipem SpA as they:
 - in relation to the alleged offence (ii), they would have "disclosed in the consolidated and statutory financial statements of Saipem SpA, approved by the Board of Directors and by the Shareholders' Meeting on March 13, 2013 and April 30, 2013, material facts that do not correspond to the truth, although subject to evaluation, as well as the omission of information on the economic, asset and financial situation of Saipem SpA, the reporting of which is required by law, ..., and, in particular:
 - > in contrast to the provisions of paragraphs 14, 16, 17, 21, 23, 25, 26 and 28 of IAS 11, no extra costs related to delays in the execution of activities and late penalties were recorded in the costs for the entire lifespan of the project, ... for a total of €245 million:

and the effect was:

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

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

On April 11, 2018, Saipem SpA received the notice of hearing set for October 16, 2018, together with the request for indictment against Saipem SpA formulated on April 6, 2018 by the Public Prosecutor.

On October 16, 2018, the trial began before the Judge for the Preliminary Hearing in Milan during which two individuals were presented as plaintiffs.

At the hearing of January 8, 2019, the Judge for the Preliminary Hearing granted the establishment of a civil suit against the accused individuals and rejected the second request for the constitution of a civil suit against all the defendants. No civil suit has been granted against Saipem SpA.

Following the discussions of the parties and the Public Prosecutor, the Judge for the Preliminary Hearing postponed the case to March 1, 2019.

At the hearing of March 1, 2019, the Judge for the Preliminary Hearing ordered the committal for trial of Saipem SpA with reference to the charge of an administrative offence pursuant to Articles 5, 6, 7, 8, 25-ter, letter b) and 25-sexies of Legislative Decree No. 231/2001, allegedly committed until April 30, 2013 *"for failing to provide a suitable organisational model to prevent criminal acts"* with regard to the following alleged crimes: (i) offence pursuant to Article 2622 of the Civil Code (*"false accounting"*), allegedly committed on April 30, 2013, with reference to the 2012 consolidated and statutory financial statements of Saipem SpA; and (ii) offence pursuant to Article 185 of Legislative Decree No. 58/1998 (*"manipulation of the market"*), allegedly committed from March 13, 2013 to April 30, 2013, with reference to press releases issued to the public regarding the approval of the 2012 consolidated and statutory financial statements of Saipem SpA.

The Judge for the Preliminary Hearing ruled in favour of Saipem SpA, because the statute of limitations had passed regarding the charge of an administrative offence pursuant to Articles 5, 6, 7, 8, 25-ter, letter b) and 25-sexies of Legislative Decree No. 231/2001, *"for failing to provide a suitable organisational model to prevent criminal acts"* with regard to the following alleged crime: (iii) offence pursuant to Article 185 of Legislative Decree No. 58/1998 (*"manipulation of the market"*), allegedly committed on October 24, 2012, with reference to the press release published for the approval of the quarterly report as at September 30, 2012 by Saipem SpA and the related conference call of October 24, 2012.

The Judge for the Preliminary Hearing ordered the committal for trial of the following individuals: (a) for the alleged crimes under (i) and (ii): the Chief Executive Officer and the Officer responsible for financial reporting who was in office at the date of approval of the 2012 consolidated and statutory financial statements of Saipem SpA; (b) for the alleged crime under (iii): the Chief Executive Officer and the Chief Operating Officer of the Engineering & Construction Business Unit of Saipem SpA in office at the date of the press release of October 24, 2012.

All individuals committed for trial by the Judge of the Preliminary Hearing of Milan have long since left the Company.

On May 23, 2019, the first instance proceedings began before the Criminal Court of Milan (R.G.N.R. 5951/2019). The hearing was postponed on June 4, 2019 as the first instance proceedings were assigned to a new section of the Criminal Court of Milan. On June 4, 2019, after the formalities of the first hearing including the filing of the requests for the admission as plaintiffs by some parties, the Court adjourned the proceedings to the September 26, 2019 hearing, in order to allow the parties to better understand the terms and the conditions of the requests for the admission as plaintiffs and the requests to summon Saipem SpA as the civilly liable party (responsabile civile). At the hearing scheduled on September 26, 2019, the Court has merely postponed the ruling on the requests for the admission as plaintiffs and on the requests to summon Saipem SpA as the civilly liable party (*"responsabile civile"*) to a hearing on October 17, 2019. The requests for the admission as plaintiffs have been proposed by more than 700 private investors. The overall amount referred to in the requests has not been determined.

At the hearing of October 17, 2019, the Court of Milan issued an order rejecting almost all the requests for the admission as plaintiffs submitted by individuals and by 4 entities representing the interest of the community (so called *"enti esponenziali"*, i.e. Confconsumatori, SITI, Codacons and Onlus Codes).

Therefore, only 49 plaintiffs (individuals, not the aforementioned entities) were admitted against the individuals under investigation (not against Saipem SpA).

At the hearing of October 17, 2019, at the request of the plaintiffs, the Court ordered the summons of Saipem SpA as the civilly liable party at the hearing of December 12, 2019.

At the hearing of December 12, 2019, Saipem SpA was admitted as the civilly liable party in the proceedings. The Court also invited the parties to formulate their preliminary statements.

The Public Prosecutor and the lawyers of the other parties and of Saipem SpA have requested the admission of the texts indicated in their lists.

The next hearing is currently scheduled for the June 11, 2020.

On July 28, 2014, Saipem SpA lodged an appeal at the Court of Appeal of Milan against the above mentioned Consob Resolution No. 18949 dated June 18, 2014 to impose a monetary fine. By decree filed on December 11, 2014, the Court of Appeal of Milan rejected the opposition made by Saipem SpA which then appealed to the Court of Cassation against the Decree issued by the Court of Appeal of Milan. The appeal was discussed on November 7, 2017. On February 14, 2018, the Court of Cassation filed its decision rejecting Saipem's petition on the grounds of the *"absolute uniqueness of the situation... concerning the interpretation of the phrase "without delay" in the text of the paragraph 1 of Article 114 TUF"* and condemning each party to bear its legal costs for the proceedings.

Current legal proceedings: on April 28, 2015, a number of foreign institutional investors initiated legal action against Saipem SpA before the Court of Milan, seeking judgement against the Company for the compensation of alleged loss and damage (quantified in about €174 million), in relation to investments in Saipem shares which the claimants alleged that they had made on the secondary market. In particular, the claimants sought judgement against Saipem requiring the latter to pay compensation for alleged loss and damage which purportedly derived from the following: (i) with regard to the main claim, from the communication

of information alleged to be “imprecise” over the period from February 13, 2012 and June 14, 2013; or (ii) alternatively, from the allegedly “delayed” notice, only made on January 29, 2013, with the first “profit warning” (the so-called “First Notice”) of privileged information which would have been in the Company’s possession from July 31, 2012 (or such other date to be established during the proceedings, identified by the claimants, as a further alternative, on October 24, 2012, December 5, 2012, December 19, 2012 or January 14, 2013), together with information which was allegedly “incomplete and imprecise” disclosed to the public over the period from January 30, 2013 to June 14, 2013, the date of the second “profit warning” (the so-called “Second Notice”). Saipem SpA appeared in court, case number R.G. 28789/2015, fully disputing the adverse party’s requests, challenging their admissibility and, in any case, their lack of grounds.

As per the order made by the Judge at the hearing of May 31, 2017, the parties proceeded to deposit the briefs referred to in Article 183, paragraph 6, c.p.c. (Civil Procedure Code). With the same order, the Court set a hearing for February 1, 2018 for the possible admission of the evidence.

With the same order of May 31, 2017, the Court ordered the separation of the judgement for five of the parties involved in the proceedings and this separate proceeding – number R.G. 28177/2017 – was discontinued pursuant to Article 181 of the Italian Civil Procedure Code on November 7, 2017.

At the hearing on February 1, 2018, the Judge, by order dated February 2, 2018, postponed the proceeding to the hearing of July 19, 2018, pursuant to Article 187, paragraph 2, c.p.c. During the hearing, after the parties clarified the conclusions, the judge assigned said parties the deadline for filing the final briefs and the replies.

On October 2, 2018, Saipem filed the final brief and on October 22, 2018 Saipem filed the reply.

On November 9, 2018, the Court filed the first instance ruling No. 11357, rejecting the merit of the request by the parties. The Court has indeed ruled that there is lack of evidence of ownership of Saipem shares by said actors in the period indicated above and has condemned them to pay €100,000 in favour of Saipem, by way of reimbursement of legal expenses.

On December 31, 2018, the institutional investors challenged the aforementioned sentence before the Court of Appeal of Milan, requesting that Saipem be ordered to pay approximately €169 million. The first hearing before the Court of Appeal of Milan was held on May 22, 2019. The Appeal’s Judge adjourned the hearing to June 10, 2020, when the parties will file their final conclusions. With a writ of summons dated December 4, 2017, twenty-seven corporate investors took legal action before the Court of Milan – section specialised in the field of corporate law, against Saipem SpA. and two former Chief Executive Officers of said company, requesting that they are jointly condemned to pay compensation (with respect to the two former members of the company, limited to their periods of stay in office) for compensation for damages, material and non-material, allegedly suffered due to an alleged manipulation of information released to the market during the period between January 2007 and June 2013.

Saipem SpA’s liability was calculated pursuant to Article 1218 of the Civil Code (contractual liability) or pursuant to Article 2043 of the Civil Code (non-contractual liability) or, pursuant to Article 2049 of the Civil Code (owner and client liability) for the illegal conduct committed by the two former company representatives.

Damages were not initially quantified by the investors, who reserved the right to quantify damages during the trial.

The Company appeared in court to contest the claims in full, pleading inadmissibility and in any case the groundlessness in fact and in law.

On June 5, 2018, the first hearing was held. In this hearing the judge assigned terms for evidence pleadings, reserving judgement until said pleadings could be examined.

The parties proceeded to deposit the pleadings referred to in Article 183, paragraph 6, c.p.c. In the evidence pleading pursuant to Article 183, paragraph 6, No. 1, c.p.c., the plaintiffs provided for the quantification of damages allegedly suffered in the amount of approximately €139 million. In its evidence pleading, Saipem and the other defendants remarked, in particular, on the lack of evidence regarding the acquisition of Saipem shares on the secondary markets by the plaintiffs. Therefore, due to this lack of evidence from the plaintiffs, all the defendants asked the Court to set a hearing to clarify the conclusions pursuant to Article 187 c.p.c.

On November 9, 2018, the Company filed sentence No. 11357 issued by the Court of Milan on November 9, 2018 at the outcome of case R.G. No. 28789/2015, as this provision decided the same preliminary issues of merit raised by Saipem and the other defendants in the case under consideration, in particular with reference to the failed proof of purchase of Saipem shares.

On November 9, 2019, Saipem SpA produced in the proceedings the order of the Criminal Court of Milan dated October 17, 2019, with reference to the pending criminal judgment R.G.N.R. 5951/2019, which declared inadmissible in this case the civil suit brought by approximately 700 civil parties.

In a note dated October 23, 2019, the plaintiffs filed an application with the judge to authorize the filing of a pro veritate opinion in relation to Saipem’s filing of November 9, 2018.

With note dated October 25, 2019, Saipem SpA has challenged the inadmissibility of the filing of the aforementioned opinion brought by the plaintiffs.

The Court issued its decision, by order of November 6, 2019, setting the hearing for the parties clarification of their conclusions on March 24, 2020, having deemed it necessary to remit the decision on the all questions and exceptions made by the parties to the Court.

Demands for out-of-court settlement and mediation proceedings: with regard to the alleged delays in providing information to the markets, over 2015, 2016, 2017, 2018 and 2019, Saipem SpA received a number of out-of-court demands and mediation applications.

As far as the out-of-court claims are concerned, the following have been made: (i) in April 2015 by 48 institutional investors acting on their own behalf and/or on behalf of the funds managed by them respectively amounting to about €291.9 million, without specifying the value of the claims made by each investor/fund (subsequently, 21 of these institutional investors, together with a further 8 presented applications for mediation for a total amount of about €159 million; 5 of these institutional investors together with another 5, presented applications for mediation in relation to the total amount of about €21.9 million); (ii) in September 2015 by 9 institutional investors acting on their own behalf and/or for the funds managed by them respectively for a total amount of about €21.5 million, without specifying the value of the claims for compensation made by each investor/fund (subsequently 5 of these institutional investors together with another 5, made an application for mediation for a total amount of about €21.9 million);

(iii) over 2015 by two private investors amounting respectively to about €37,000 and €87,500; (iv) during the month of July 2017 from some institutional investors for approximately €30 million; (v) on December 4, 2017, from 141 institutional investors for an unspecified amount (136 of these investors on June 12, 2018 renewed their out-of-court request, again for an unspecified amount); (vi) on April 12, 2018 for about €150-200 thousand from a private investor; (vii) on July 3, 2018 from a private investor for about €330 thousand; (viii) on October 25, 2018 for about €8,800 from a private investor; (ix) on November 2 for about €48,000 from a private investor; (x) on May 22, 2019 for about €53,000 from a private investor; (xi) on June 3, 2019 for an unspecified amount from a private investor; (xii) on June 5, 2019, for an unspecified amount from two private investors.

Those applications where mediation has been attempted, but with no positive outcome, involve six main demands: (a) in April 2015 by 7 institutional investors acting on their own behalf and/or for the funds managed by them, in relation to about €34 million; (b) in September 2015 by 29 institutional investors on their own behalf and/or for the funds managed by them respectively, for a total amount of about €159 million (21 of these investors, together with another 27, submitted out-of-court demands in April 2015, complaining that they had suffered loss and damage for a total amount of about €291 million without specifying the value of the claims for compensation for each investor/fund); (c) in December 2015 by a private investor in the amount of about €200,000; (d) in March 2016 by 10 institutional investors on their own behalf and/or for the funds managed by each respectively, for a total amount of about €21.9 million (5 of these investors together with another 4 had presented out-of-court applications in September 2015, complaining they had suffered loss and damage for a total amount of about €21.5 million without specifying the value of the compensation sought by each investor/fund. Another 5 of these investors, together with a further 43, had presented out-of-court applications in April 2015 alleging they had suffered loss and damage for an amount of about €159 million without specifying the value of the compensation sought by each investor/fund); (e) from a private investor in April 2017 for approximately €40,000; (f) in 2018-2019 by a private investor for approximately €48,000.

Saipem SpA verified the aforementioned requests for out-of-court claims and mediation and found them to be groundless and denying all liability. At the date of approval of the 2019 Annual Report by the Board of Directors, the aforementioned demands for out-of-court settlements and/or mediation were not subject to legal action, except for the matters specified above in relation to the two cases pending before the Court of Milan and the Court of Appeal of Milan, for another case with a value of €3 million in which Saipem was summoned in the course of 2018 by the defendant in court and (for which the claim against Saipem has been rejected by the Court in the first instance and is currently awaiting judgment before the Court of Appeal), and for another case that has just started with a claim value of approximately €40,000.

DISPUTE WITH HUSKY - SUNRISE ENERGY PROJECT IN CANADA

On November 15, 2010, Saipem Canada Inc ("Saipem") and Husky Oil Operations Ltd ("Husky") (the latter on behalf of the Sunrise Oil Sands Partnership formed by BP Canada Energy Group ULC and Husky Oil Sands Partnership, in turn formed by Husky Oil Operations Ltd and HOI Resources Ltd), signed an Engineering, Procurement and Construction contract No. SR-071 (the "Contract"), prevalently on a reimbursable basis, relating to the project called Sunrise Energy (the "Project").

During the execution of the works, the parties agreed several times to modify the contractual payment formula. Specifically: (i) in October 2012, the parties established that the works were to be paid for on a lump-sum basis, agreeing the amount of CAD 1,300,000,000 as contract price; (ii) subsequently, in early 2013, an incentive system was agreed that provided for Saipem's right to receive additional payments upon achieving certain objectives; (iii) starting from April 2014, the parties entered into numerous written agreements whereby Husky accepted to reimburse Saipem for the costs incurred in excess of the lump sum amount previously agreed, thus determining, according to Saipem, a contract change from lump sum to reimbursable. As the end of the works approached, however, Husky stopped paying what it owed as reimbursement and, in March 2015, finally terminated the Contract, claiming that Saipem had not complied with the contractual deadline for conclusion of the works.

In light of the above, on March 16, 2015 Saipem took legal action citing Husky, the aforesaid partnerships and the related members before the Court of Queen's Bench of Alberta, requesting, among other things, that the court declare the illegitimacy of the termination of the Contract by Husky and sentence it to the payment of: (i) more than CAD 800 million for damages that include the payments not made on a reimbursable basis, damages resulting from the termination of the contract, lost profits and the unjustified enrichment of Husky at the expense of Saipem; or, alternatively, (ii) the market value of the services, materials and financing rendered.

In September 2015, Husky notified Saipem of a Request for Arbitration (Alberta Arbitration Act), affirming that, as a result of the reduction of the scope of work requested by Husky, the contractual lump sum price agreed with Saipem should be reduced proportionally on the basis of a specific contractual provision in this sense. On the basis of this, Husky asked that Saipem be ordered to pay the related value, quantifying this claim as CAD 45,684,000.

On October 6, 2015, Husky sued Saipem in the Court of Queen's Bench of Alberta, claiming, among other things: (i) that the payments it had made to Saipem, which were in excess of the lump sum amount agreed between the parties, were justified by Saipem's alleged threats to abandon the works if such additional payments were not made (economic duress); and (ii) that even after the execution of such payments, the performances of Saipem did not improve, forcing Husky to terminate the contract and complete the works on its own. As a result, Husky asked the Canadian court to order Saipem to pay CAD 1.325 billion for alleged damages, an amount that includes, among other things: (i) payments in excess with respect to the agreed lump sum price; (ii) costs to complete the works following termination of the contract; (iii) damages for lost profits and the penalty for alleged delay in completion of the Project.

In the hearing of January 14, 2016, Saipem requested that the pending proceedings be heard jointly before the Queen's Bench Court of Alberta and that arbitration be suspended in order to include the relative claims in the proceedings to be heard jointly. On May 27, 2016 Saipem filed a short reply requesting that the Court declare invalid the arbitration proceedings commenced by Husky. At the hearing for the discussion of this petition, held on July 4, 2016, the judge rejected the request to declare the arbitration procedure invalid initiated by Husky which is ongoing.

In March 2018, the parties entered into an arbitration agreement by which they agreed to unite all the disputes pending between them, as described above, in a single "ad hoc" arbitration proceeding based in Canada.

In the Statement of Claim filed by Saipem on April 30, 2018 in the new arbitration procedure, Saipem requested: (i) damages for over CAD 508 million; (ii) damages to be calculated by the court following adjustments to the contract price due to additional work resulting from the contractual breaches by Husky, or on a quantum meruit basis; (iii) punitive damages to be determined; (iv) interest in the amount of CAD 90 million (or to be calculated by the court); (v) legal expenses; (vi) any other damages awarded by the court. In the Statement of Claim filed on April 30, 2018, Husky asked: (i) compensation for approximately CAD 1.37 billion as compensation for alleged damages (this amount includes, inter alia, payments allegedly in excess of the agreed lump-sum price; the costs for completing the work after the termination of the contract; the loss of profit and the liquidated damages for delay for the alleged delayed completion of the Project); (ii) interest to be calculated by the court; (iii) legal expenses; (iv) any other damages awarded by the court. On June 8, 2018, the parties filed their respective Statements of Defence. On September 13, 2019, the parties exchanged their respective witness statements, expert reports and memorials. In particular, in their respective memorials: (i) Saipem reduced its claims to CAD 166 million, these claims relate to the costs incurred up to the termination of the contract and associated damages; while (ii) Husky introduced an application for the repayment of alleged overstated payments, initially quantifying them in a range from CAD 75 million to CAD 125 million. Upon the exchange of supplemental memorials, which took place on January 31, 2020, Husky specified its latest request in approximately CAD 122.5 million.

The parties are currently involved in the collection of the documentary evidences. The award is expected to be issued in 2021.

ARBITRATION WITH GLNG - GLADSTONE PROJECT (AUSTRALIA)

On January 4, 2011, Saipem Australia Pty Ltd ("Saipem") entered into the Engineering, Procurement and Construction Contract (the "Contract") relating to the Gladstone LNG project (the "Project") with GLNG Operations Pty Ltd ("GLNG") in the capacity of agent of the joint venture between Santos GLNG Pty Ltd, PAPL (Downstream) Pty Ltd and Total E&P Australia.

During the execution of the Project, Saipem accrued and presented to GLNG contractual claims that were entirely rejected by GLNG. A phase of negotiations began between the parties but did not lead to any positive results.

Therefore, on October 9, 2015, Saipem submitted a request for arbitration against GLNG requesting:

- > a quantum meruit claim based on the alleged invalidity of the Contract (a claim that was rejected during the arbitration procedure on the basis of a partial award);
- > claims based on the contract.

On November 6, 2015, GLNG filed its counterclaim requesting the rejection of the claims made by Saipem and requesting in turn compensation for damages for alleged defective works with particular reference to the coating of the entire line and to the cathodic protection system.

At present, Saipem claims in the arbitration amount to approximately AUD 254 million, while the GLNG counterclaim amounts to approximately AUD 1.1 billion, corresponding to the GLNG assessment of the pipeline replacement costs; and AUD 24 million corresponding to the GLNG assessment of the costs for the adoption of temporary adjustment measures.

The last hearings were held in August 2018.

On June 27, 2019, the Arbitral Tribunal pronounced its decision on all controversial issues except for the costs (including legal and experts' costs) of the arbitration procedure, the applicable interest on the claims recognised to Saipem, a Saipem fiscal claim and other minor claims submitted by Saipem.

On June 27, 2019, the Arbitral Tribunal completely rejected the GLNG counterclaims: (i) for an amount of approximately AUD 1.1 billion, corresponding to the assessment made by GLNG of the pipeline replacement costs; and (ii) for an amount of approximately AUD 24 million, corresponding to the GLNG assessment of the costs for the adoption of temporary adjustment measures.

The Arbitral Tribunal therefore acknowledged claims: (a) submitted by Saipem for approximately AUD 102 million; and (b) submitted by GLNG for approximately AUD 1 million.

The Arbitral Tribunal therefore set Saipem's credit at approximately AUD 101 million (net of interests) on the items covered by the decision of June 27, 2019. On October 25, 2019, the Arbitral Tribunal set the amount of interest on items recognised to Saipem in the award of June 27, 2019 at around €22 million; this amount was paid by GLNG to Saipem on November 17, 2019. The award of October 25, 2019 had also recognised that Saipem was due the reimbursement of legal fees.

The parties have recently found a settlement also in relation to the reimbursement of legal fees; under this agreement GLNG paid Saipem AUD 39 million.

SETTLEMENT WITH SOUTH STREAM TRANSPORT BV - SOUTH STREAM PROJECT

On November 10, 2015, Saipem SpA filed a request for arbitration against South Stream Transport BV ("SSTBV") with the International Chamber of Commerce (ICC) of Paris. Saipem's initial claim amounted to about €759.9 million by way of consideration due both for the suspension of work (requested by the client for the period from December 2014 to May 2015) and for the subsequent termination for convenience of the contract notified on July 8, 2015 by SSTBV. The request may be supplemented by Saipem by claims for costs incurred directly by the termination for convenience and relating to works that are still in progress or which have not yet been completely calculated. ICC notified SSTBV of Saipem's request for arbitration on December 15, 2015. SSTBV filed its reply on February 16, 2016. In its reply, SSTBV challenged all of Saipem's claims and reserved the right to make a counterclaim at a subsequent stage of the arbitration process.

On September 30, 2016, Saipem filed its own Memorial (Statement of Claim), in which, on the basis of the report drawn up by its own quantum expert, the amount of the claims against SSTBV has been reduced to approx. €678 million (with the right to integrate this in the course of arbitration).

On March 10, 2017, SSTBV deposited its Counter-Memorial, in which, in addition to rejecting Saipem's requests, compensation was claimed:

- > mainly for damages of around €541.6 million for alleged misrepresentations that would have led the defendant to enter into a contract with Saipem;
- > additionally or alternatively, for damages for: (i) approximately €75.9 million, for payments made by SSTBV to a significantly higher level than contractually due; and (ii) approximately €48.6 million, for liquidated damages motivated by alleged delays; and

> mainly and alternatively, damages for approximately €5.2 million for alleged damage to the pipes owned by the defendant. On November 3, 2017, Saipem filed its Reply Memorial in which it clarified its claims for €644,588,545. On December 21, 2018, SSTBV deposited its own Rejoinder. The discussion hearings before the arbitration panel had been set for June 2019.

At the end of February 2019, Saipem and South Stream Transport BV have expressed the common intention to negotiate – on a without prejudice basis – an amicable settlement of the arbitration in progress since November 2015. The 2018 result included the effect of the hypothetical settlement being negotiated at the time between the parties regarding the South Stream project.

On April 18, 2019, Saipem SpA issued the following press release:

“South Stream Transport BV and Saipem announce the amicable settlement of mutual differences.

San Donato Milanese - Amsterdam, April 18, 2019 - South Stream Transport BV and Saipem SpA have positively ended their negotiations signing an agreement to amicably settle the arbitration concerning the South Stream Offshore Pipeline Installation contract entered into on March 14, 2014”.

The above-described arbitration has therefore ended. The 2018 result had already included the economic effects of this settlement.

ARBITRATION WITH KHARAFI NATIONAL CLOSED KSC (“KHARAFI”) - JURASSIC PROJECT

With reference to the Jurassic project and the relating EPC contract between Saipem SpA (“Saipem”) and Kharafi, on July 1, 2016 Saipem filed a request for arbitration with the London Court of International Arbitration (“LCIA”) with which it requested that Kharafi be sentenced:

(1) to return KWD 25,018,228, cashed by Kharafi through the enforcement of a performance bond following the termination of the contract with Saipem;

(2) to refund KWD 20,135,373 for costs deriving from the suspension of the procurement activities, particularly those connected with the purchase by Saipem of 4 turbines;

(3) to refund KWD 10,271,409 for engineering costs borne by Saipem prior to the termination of the contract by Kharafi; for a total of KWD 55,425,010 (equal to approximately €153,065,479 on the basis of the exchange rate at December 31, 2017).

Kharafi responded to Saipem’s request for arbitration rejecting the claims therein and demanding, by way of counterclaim, that Saipem be sentenced to pay an amount not yet quantified but including, among other things:

(1) the costs allegedly sustained by Kharafi due to Saipem’s alleged non-fulfilment of the contract (more than KWD 32,824,842); and

(2) the damage allegedly suffered by Kharafi following the enforcement of a guarantee in a sum equivalent to KWD 25,136,973 issued by Kharafi to the final client of the Jurassic project.

On April 28, 2017, Saipem filed its Statement of Claim and on October 16, 2017 Kharafi filed its Statement of Defence and Counterclaim. The Kharafi counterclaim was set out in KWD 102,737,202 (approximately €283 million). Saipem filed its response on February 6, 2018 and Kharafi the related Reply and Defence to Counterclaim on April 6, 2018.

On November 14, 2018, the parties filed their expert reports. At that time, Kharafi produced a report prepared by an external consulting company in which, for the first time, it claimed that the company would have suffered damages for equal to approximately €1.3 billion, allegedly attributable to Saipem related to the failure of the Jurassic and BS171 projects (in which Kharafi was a subcontractor of Saipem). Subsequently, Saipem filed an appeal with the Arbitral Tribunal requesting that the expert report in question, as well as the related request, be thrown out as late and without foundation.

On February 5, 2019, the Arbitral Tribunal pronounced that the report in question was inadmissible and, with it, the new claim for compensation brought by Kharafi for the equivalent of €1.3 billion.

On March 1, 2019, Kharafi appealed against the decision of the Arbitral Tribunal which stated that the aforementioned report was inadmissible before the High Court of Justice in London. At the hearing on July 6, 2019, the High Court of Justice in London ruled in favour of Saipem, fully rejecting the request of Kharafi and ordering Kharafi to pay, within 14 days from the ruling, GBP 79,000 as legal expenses.

With their last filing the parties specified their demands, based on the final quantifications performed by the experts, indicating as follows: (i) Saipem, KWD 46,069,056.89; and (ii) Kharafi, KWD 162,101,263.

Hearings were held in London from February 18 to March 1, 2019. The award was issued on November 8, 2019 and notified to the parties in the following days.

In the award, the Arbitral Tribunal sentenced Kharafi to pay Saipem the amount of the guarantee deemed unfairly enforced by Kharafi, namely KWD 25,018,228, in addition to interest at 7%, rejecting all Kharafi’s claims and sharing among the parties the legal costs. At present, Kharafi has not paid Saipem the amount referred to in the award.

ARBITRATION WITH CPB CONTRACTORS PTY LTD (FORMERLY LEIGHTON CONTRACTORS PTY LTD) (“CPB”) GORGON LNG JETTY PROJECT

In August 2017, CPB notified Saipem SA and Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda (“Saipem”) of a request for arbitration.

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

CPB based on alleged contractual breaches by Saipem SA and Saipem (Portugal) Comércio Marítimo, Sociedade Unipessoal Lda has requested that Saipem be ordered to pay approximately AUD 1.39 billion. Saipem believes that the CPB claims are totally unfounded and has filed its statement in which it has requested the rejection of all the claims made by CPB and filed a counterclaim for AUD 37,820,023 for payments related to the consortium agreement, extra costs related to non-compliance and delays by CPB in the execution of the works and backcharges. Subsequently, the parties specified their claims. In particular: (i) CPB clarified its demands by making a claim of approximately AUD 1 billion for alleged violations of the consortium agreement between

the parties and another alternative claim of approximately AUD 1.46 billion based on the assumption that CPB would not have entered into the Jetty Contract (and would not have suffered the related damages), if Saipem had not violated the consortium contract; (ii) Saipem quantified its claims in a total amount of approximately AUD 140 million. The arbitration should end in 2021. It is noted that, with reference to the same project, in 2016 Chevron initiated a separate arbitration proceeding against the consortium between CPB and Saipem, requesting payment of liquidated damages and back-charges for an amount currently equal to about AUD 54 million. In this arbitration, both CPB and Saipem filed separate counterclaims against Chevron, currently quantified, respectively, at AUD 1.9 billion (it is noted that the items of damages proposed by CPB against Chevron appear, in large part, superimposable to those proposed by CPB against Saipem in the arbitration between the latter two, referred to in the first part of this paragraph) and AUD 23 million. The hearings of these proceedings were held in November 2019 and the parties are now awaiting the award, which is expected during the first half of 2020.

ARBITRATION WITH NATIONAL COMPANY FOR INFRASTRUCTURE PROJECTS DEVELOPMENT CONSTRUCTION AND SERVICES KSC (CLOSED), FORMERLY KHARAFI NATIONAL KSC (CLOSED) - BOOSTER STATION 171 (KUWAIT) PROJECT ("BS171")

On March 18, 2019, the International Chamber of Commerce of Paris, at the request of the National Company for Infrastructure Projects Development Construction and Services KSC (Closed) (formerly Kharafi National KSC, for convenience, hereinafter "Kharafi") notified Saipem SpA of a request for arbitration, in which Kharafi requested that Saipem be ordered to pay sums of at least KWD 38,470,431 as extra-costs deriving from alleged breaches of contract, in addition to KWD 8,400,000 by way of refund of the amount collected by Saipem in 2016 following the enforcement (illegitimate according to Kharafi) of the bond issued by Kharafi to guarantee project performance.

The dispute pertains to subcontract No. 526786 signed by Saipem and Kharafi on August 27, 2010, relating to the BS171 project (final client KOC) terminated by Saipem on July 30, 2016 for serious breaches and delays by Kharafi in the execution of the works, with consequent enforcement of the aforementioned performance guarantee.

Appearing in court, on May 17, 2019 Saipem filed its response to the request for arbitration, contesting the requests by Kharafi and making a counterclaim, which involves: (i) a payment of KWD 14,964,522; and (ii) the recognition of Saipem's enforcement of the performance bond and the consequent rejection of the reimbursement claim for the same amount (KWD 8,400,000) made by Kharafi. On January 24, 2020, Kharafi filed its Statement of Case and Schedule of Loss in which it clarified its demands, reducing them to KWD 31,852,377 (this amount includes KWD 8.4 million by way of return of the performance bond). Saipem shall file its Statement of Defence and Counterclaim on April 9, 2020.

At the date of the preparation of this report, the hearings are expected to begin on July 5, 2021, lasting three weeks.

CONSOB RESOLUTION OF MARCH 2, 2018

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

The appeal to the TAR-Lazio was filed on April 27, 2018. Following access to the administrative proceedings, on May 24, 2018 Saipem filed with the TAR-Lazio additional grounds for appeal against the aforementioned Resolution. The date for the hearing before TAR-Lazio has not yet been scheduled.

CONSOB RESOLUTION OF FEBRUARY 21, 2019

With reference to Consob Resolution No. 20828 of February 21, 2019, communicated to Saipem on March 12, 2019 ("the Resolution") the contents of which are described in paragraph "Information regarding censure by Consob pursuant to Article 154-ter, subsection 7, of Legislative Decree No. 58/1998 and the notice from the Consob Offices dated April 6, 2018", the Board of Directors of Saipem resolved on April 2, 2019 to appeal the Resolution No. 20828 before the Court of Appeals of Milan. On April 12, 2019, Saipem SpA appealed, pursuant to Article 195 TUF, against the Resolution before the Milan Court of Appeal, requesting its cancellation. A similar appeal was filed by the two individuals sanctioned under the Resolution, i.e. the Chief Executive Officer of Saipem SpA and the Chief Financial Officer and Manager responsible for Financial Reporting in office at the time of the events. The first hearing before the Milan Court of Appeal was held on November 13, 2019.

On that day, the Milan Court of Appeal postponed the discussion until April 29, 2020.

ONGOING INVESTIGATIONS. PUBLIC PROSECUTOR'S OFFICE OF MILAN - 2015 AND 2016 FINANCIAL STATEMENTS. PROSPECTUS OF THE JANUARY 2016 CAPITAL INCREASE

On January 22, 2019, the Public Prosecutor's Office of Milan notified Saipem SpA of a "local search warrant and seize notice of investigation", in relation to the alleged administrative offence pursuant to Articles 5, 6, 7, 8 and 25-ter - lett. B), Legislative Decree No. 231/2001, based on the alleged crime of false accounting allegedly committed from April 2016 to April 2017, as well as in relation to the alleged unlawful administrative act pursuant to Articles 5, 6, 7, 8 and 25-sexies of Legislative Decree No. 231/2001, based on the alleged crime of manipulation of the market, allegedly committed from October 27, 2015 to April 2017.

At the same time, the Public Prosecutor's Office of Milan notified the Chief Executive Officer of the Company, as well as, for various reasons, two of its managers (including the former Manager responsible for the preparation of financial reports appointed on June 7, 2016 and in charge up to the May 16, 2019) and a former manager of an investigation concerning the following offences: (i) false accounting relating to the 2015 and 2016 financial statements; (ii) manipulation of the market allegedly committed from October 27, 2015 to April 2017; and (iii) false statements in the Prospectus issued with reference to the documentation for the offer of the capital increase in January 2016.

Preliminary investigations are currently under way.

31 Revenue

The following is a summary of the main components of revenue. For more information about changes in revenue and reporting by business segment, see the "Financial and economic results" section of the "Directors' Report".

Core business revenue

Core business revenue was as follows:

(€ million)	2018	2019
Revenue from sales and E&C services	7,560	8,006
Revenue from sales and Drilling services	966	1,093
Total	8,526	9,099

Net sales by geographical segment were as follows:

(€ million)	2018	2019
Italy	354	366
Rest of Europe	467	404
CIS	752	981
Middle East	2,893	3,135
Far East	501	808
North Africa	1,088	1,254
Sub-Saharan Africa	1,952	1,465
Americas	519	686
Total	8,526	9,099

As described in the "Accounting policies" in the paragraph "Contract assets and contract liabilities", to which we refer, in consideration of the nature of the contracts and the type of works performed by Saipem, the individual obligations contractually identified are mainly satisfied over time. The revenue that measure the progress of the work is determined, in line with the provisions of IFRS 15, by using an input method based on the percentage of costs incurred with respect to the total contractually estimated costs ("cost-to-cost" method).

Contract revenue includes the amount agreed in the initial contract, plus revenue from change orders and claims.

The change orders consist of additional fees deriving from changes to the contractually agreed works requested by the client; price revisions (claims) consist of requests for additional fees deriving from higher charges incurred for reasons attributable to the client. Change orders and claims are included in the amount of revenue when the changes to the agreed works and/or price have been approved, even if their definition has not yet been agreed on and in any case for a total amount not exceeding €30 million; any pending revenue reported for a period longer than one year is impaired, despite the confidence in recovery of the business. The cumulative amount of additional consideration for change orders and claims, including amounts pertaining to previous years, based on project progress at December 31, 2019, totalled €21 million (€120 million at December 31, 2018). There are no additional consideration relative to legal disputes in progress (in 2018 the additional consideration relative to legal disputes in progress amounted to 79% of the total additional consideration).

The contractual obligations to be fulfilled by the Saipem Group (order backlog), which at December 31, 2019 amounted to €21,153 million, are expected to generate revenue of €7,532 million in 2020 while the remainder will be realised in subsequent years.

The share of revenue for leasing in the item "Core business revenue" does not have a significant impact on the overall amount of core business revenue, as it amounts to less than 3% of the total and relates to the Drilling and Leased FPSO segments.

Revenue from related parties are shown in Note 39 "Related party transactions".

Other revenue and income

Other revenue and income were as follows:

(€ million)	2018	2019
Gains on disposal of assets	1	7
Indemnities	1	-
Other income	10	12
Total	12	19

32 Operating expenses

The following is a summary of the main components of operating expenses. For more information about changes in operating expenses, see the "Financial and economic results" section of the "Directors' Report".

Purchases, services and other costs

Purchases, services and other costs included the following:

(€ million)	2018	2019
Raw, ancillary and consumable materials and goods	1,780	1,815
Services	3,614	3,993
Use of third party assets	626	449
Net accruals to (utilisation of) the provisions for risks and charges	29	(6)
Other expenses	45	2
less:		
- internal work capitalised	(5)	(15)
- changes in inventories of raw, ancillary and consumable materials and goods	21	2
Total	6,110	6,240

During 2019 no brokerage fees were incurred.

Costs for research and development that do not meet the requirements for capitalisation amounted to €38 million (€32 million in 2018).

"Use of third party assets" equal to €449 million, refer to €434 million for lease contracts, of which €408 million relate to "Short-term Leases" with a term of less than or equal to 12 months, €24 million relate to "Intangible leasing software" and the remaining part relates to "Low value" and "Variable payments".

Net accruals to/utilisations of the provisions for risks and charges are detailed in Note 24 "Provisions for risks and charges".

Purchases, services and other costs to related parties are shown in Note 39 "Related party transactions".

Net reversals of impairment losses (impairment losses) on trade receivables and other assets

Net reversals of impairment losses (impairment losses) on trade receivables and other assets also include the effects relative to IFRS 9 applied to contract assets and are broken down as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Trade receivables	(54)	(59)
Other receivables	-	(1)
Contract assets	(3)	(2)
Total	(57)	(62)

Personnel expenses

Personnel expenses were as follows:

(€ million)	2018	2019
Wages and salaries	1,270	1,369
Social security contributions	194	203
Contributions to defined benefit plans	44	60
Accrual to provision for TFR recognised as a counter-item to pension or Inps funds	22	23
Voluntary redundancy incentives	(18)	(3)
Other costs	16	25
less:		
- internal work capitalised	(6)	(7)
Total	1,522	1,670

Net accruals to provisions for employee benefits are shown under Note 25 "Employee benefits". The income/expense for voluntary redundancy incentives refer only to net accruals to/utilisations of the provisions for redundancy incentives as commented in Note 24 "Provisions for risks and charges".

Long-term stock-based incentive plans for Saipem Senior Managers

In order to create a system of incentives and loyalty among Group's Senior Managers, Saipem SpA, defined a long-term incentive plan starting from 2016, through the free allocation of Saipem SpA ordinary shares which was implemented in quarterly cycles.

These incentive plans (2016-2018 and 2019-2021), approved by the Ordinary Shareholders' Meetings on April 29, 2016 and on April 30, 2019 respectively, provide for the free allocation of Saipem ordinary shares to the executives of Saipem SpA and its subsidiaries, holders of organisational positions with significant impact on the achievement of business results, also in relation to performance expressed and professional skills.

The 2016-2018 plan provides for the performance conditions to be measured on the basis of the following parameters: (i) a market goal, identified in the Total Shareholder Return (TSR) of the Saipem share, with a weight of 50%, with respect to that of a competitor's basket over the performance period; (ii) an economic and financial target, with a weight of 50%, represented, for all the implementations realised, by Saipem's Net Financial Position (NFP) at the end of the three-year reference period.

The performance goals relative to the 2019 implementation of the 2019-2021 plan are represented by: (i) a market goal, identified in the Total Shareholder Return (TSR) of the Saipem share, with a weight of 50%, in terms of positioning relative to two peer groups; (ii) two economic and financial goals: Saipem's Adjusted Net Financial Position at the end of the three-year performance

period (weight 25%); (iii) Return on Average Invested Capital Adjusted (ROAIC): a target that measures the return of the company's invested capital at the end of the three-year performance period (weight 25%).

The performance conditions operate independent of one another for both plans.

For more information about the characteristics of the two plans, reference is made to the information documents made available to the public on the company's website (www.saipem.com), implementing the legislation currently in force (Article 114-bis of Legislative Decree No. 58/1998 and the Consob regulations implementing it).

The cost is determined with reference to the fair value of the option assigned to the senior manager, while the portion for the year is determined pro-rata temporis throughout the period to which the incentive refers (so-called vesting period and co-investment period/retention premium).

The fair value for the year, relative to all the implementations made, is €4 million.

The assessment was made using the Stochastic and Black & Scholes models, according to the provisions set forth in the IFRS, especially IFRS 2.

The Stochastic model was used to assess the assignment of equity instruments subject to market conditions (TSR).

The Black & Scholes model was used to assess the economic and financial goals.

For the 2019 implementation, the total weighted average unit fair value amounted to €4.579 (€3.859 for the 2018 implementation). Since the plan provides for the strategic resources to invest 25% of the shares accrued at the end of the vesting period for an additional two-year period (co-investment period), at the end of which the beneficiaries will receive an additional free share, the weighted average fair value differs depending on the type of assignee, as illustrated hereafter:

	Weighted average fair value (implementation for 2018)	Weighted average fair value (implementation for 2019)
Strategic senior managers	4.271	4.754
Non-strategic senior managers	3.419	4.274
Chief Executive Officer ⁽¹⁾	2.670	4.754
	3.419	
Total	3.859	4.579

(1) In 2018, the Board of Directors of Saipem SpA approved two different assignments for the benefit of the Chief Executive Officer (dated March 5, 2018 and July 24, 2018 respectively). The fair value, since it was measured at the assignment date, was different between the assignment made on March 5, 2018 (€2.670) and that of July 24, 2018 (€3.419).

The provision relative to co-investment also applies to the Chief Executive Officer for the 2019-2021 plan. For the 2016-2018 plan, however, a two-year lock-up period is provided for the Chief Executive Officer on 25% of the shares accrued, during which they can be neither transferred nor sold.

On the assignment date, the classification and number of beneficiaries, the respective number of shares allocated and the subsequent fair value calculation, are analysed as follows:

Implementation for 2018

	No. of managers	No. of shares	Share portion (%)	Unit fair value TSR (weight 50%)	Unit fair value NFP (weight 50%)	Total fair value	Fair value at Dec. 31, 2018 ⁽¹⁾	Fair value at Dec. 31, 2019 ⁽¹⁾
Strategic senior managers (vesting period)			75	2.73	4.11			
Strategic senior managers (co-investment period)	98	3,559,900	25	5.44	8.22	15,205,280	1,771,058	3,209,791
Non-strategic senior managers	263	2,357,000	100	2.73	4.11	8,057,871	1,176,320	2,024,728
Chief Executive Officer (March 2018)	1	205,820	100	2.06	3.28	549,590	150,937	137,120
Chief Executive Officer (July 2018)	1	413,610	100	2.73	4.11	1,414,009	206,425	355,303
Total	363	6,536,330				25,226,750	3,304,740	5,726,942

(1) The fair value for the period is measured as of the observation date.

Implementation for 2019

	No. of managers	No. of shares ⁽¹⁾	Share portion (%)	Unit fair value TSR E&C (weight 35%)	Unit fair value TSR Drilling (weight 15%)	Unit fair value NFP (weight 25%)	Unit fair value ROAIC (weight 25%)	Total fair value	Fair value for previous years ⁽²⁾	Fair value at Dec. 31, 2019 ⁽²⁾
Strategic senior managers (vesting period)			75	4.11	5.46	4.03	4.03			
Strategic senior managers/CEO (co-investment period)	93	2,306,100	25	8.28	10.80	4.03	4.03	12,224,552	-	655,253
Non-strategic senior managers	274	1,642,500	100	4.11	5.46	4.03	4.03	6,964,481	-	444,406
Chief Executive Officer (vesting period)	1	243,900	100	4.11	5.46	4.03	4.03	1,292,905	-	69,301
Total	368	4,192,500						20,481,938	-	1,168,960

(1) The number of shares shown in the table corresponds to the number assigned to the beneficiaries at the assignment date. The number of shares used for the fair value calculation amounts to 4,473,093 and reflects the achievement assumptions of the non market conditions at the end of the plan.

(2) The fair value for the period is measured as of the observation date.

The evolution of the share plan is as follows:

	2018			2019		
	Number of shares	Average strike price ^(a) (€ thousand)	Market price ^(b) (€ thousand)	Number of shares	Average strike price ^(a) (€ thousand)	Market price ^(b) (€ thousand)
Options outstanding as of January 1	12,637,514	-	48,149	18,097,117	-	59,087
New options granted	6,536,330	-	26,864	4,192,500	-	16,892
(Options exercised during the period - consensual termination) ^(c)	(186,724)	-	(743)	(32,130)	-	135
(Options expiring during the period)	(890,003)	-	(3,859)	(5,726,957)	-	26,975
Options outstanding as of December 31	18,097,117	-	59,087	16,530,530	-	72,005
Of which:						
- exercisable at December 31	-	-	-	-	-	-
- exercisable at the end of the vesting period	15,636,645	-	-	14,197,105	-	-
- exercisable at the end of the co-investment period	2,460,472	-	-	2,333,425	-	-

(a) Since these are grants, the strike price is zero.

(b) The market price of shares underlying options granted, exercised or expiring during the year corresponds to the average market value. The market price of shares underlying the grants outstanding at the beginning and end of the period is the price recorded at the last available data at January 1 and December 31.

(c) The share plan envisages, inter alia, that in cases of consensual termination of the employment relationship, the beneficiary retains the right to the incentive to a reduced extent, in relation to the period elapsed between the allocation of shares and the occurrence of such event (Article 4.8 of the plan regulations).

The following table shows options outstanding as of December 31, 2019 and the number of assignees:

Year	No. of managers	Strike price ^(a)	No. of shares
2016	372	-	6,103,514
2017	345	-	6,742,400
2018	363	-	6,536,330
2019	368	-	4,192,500
At December 31, 2019			23,574,744
Shares assigned ^(b)			
2016	(20)	-	(158,199)
2017	(11)	-	(56,530)
2018	(5)	-	(8,400)
2019	-	-	-
			(223,129)
Expired options ^(b)			
2016	(372)	-	(5,945,315)
2017	(22)	-	(545,470)
2018	(14)	-	(330,300)
2019	-	-	-
			(6,821,085)
Stock options			
2016	-	-	-
2017	323	-	6,140,400
2018	349	-	6,197,630
2019	368	-	4,192,500
			16,530,530

(a) Since these are grants, the strike price is zero.

(b) The number of managers indicated among the expired options, also includes 36 managers already detailed in correspondence with the shares allocated. The latter, in fact, referring to consensual termination, whose beneficiaries received a reduced number of shares (Article 4.8 of the plan regulations), imply the forfeiture of residual unallocated options.

The long-term incentive plans for Saipem SpA employees are shown in the item "Personnel expenses" and as a counter-item to "Other reserves" of equity.

The fair value of allocated options for employees of subsidiaries is shown at the date of option grant in the item "Personnel expenses" and as a counter-item to "Other reserves" of equity. In the same year the corresponding amount is charged to affiliated companies, as a counter-item to the item "Personnel expenses".

In the case of Saipem SpA personnel who provides service to other group companies, the cost is charged pro-rata temporis to the company where the beneficiaries are in service.

The following parameters were used to calculate fair value:

		Allocation	2018 ^(a)	Allocation	2019
Share price ^(b)	(€)	March 5, 2018	3.28	October 23, 2019	4.03
		July 24, 2018	4.11		
Strike price ^(c)	(€)		-		-
Strike price used in the Black & Scholes model	(€)	March 5, 2018	3.28	October 23, 2019	4.03
		July 24, 2018	4.11		
Expected life					
Vesting period	(anni)		3		3
Co-investment	(anni)		2		2
Risk-free interest rate					
TSR	(%)		-		-
- vesting period	(%)	March 5, 2018	0.110	October 23, 2019	0.00
		July 24, 2018	1.050		
- co-investment	(%)	July 24, 2018	1.730	October 23, 2019	0.32
Black & Scholes	(%)		n.a.		n.a.
Expected dividends	(%)		-		-
Expected volatility					
TSR	(%)		-		-
- vesting period	(%)	March 5, 2018	54.79	October 23, 2019	37.70
		July 24, 2018	51.49		
- co-investment	(%)	July 24, 2018	49.19	October 23, 2019	38.18
Black & Scholes	(%)		n.a.		n.a.

(a) In 2018, the Board of Directors of Saipem SpA, in addition to approving the implementation for 2018 for executives of the Saipem Group (on July 24, 2018), also approved two different assignments for the benefit of the Chief Executive Officer referring to the same implementation of the share-based plan for 2016-2018 (dated March 5, 2018 and July 24, 2018 respectively). The parameters used to calculate the fair value, since they were observed as of the date of assignment, differ between the two dates.

(b) Corresponding to the closing price of Saipem SpA shares on the date of assignment, recorded on the Electronic Stock Market managed by Borsa Italiana.

(c) Since these are grants, the strike price is zero.

Remuneration of key management personnel

To ensure better consistency between disclosures provided in the Remuneration Report and this annual report, the definition of key management personnel is aligned to Article 65, paragraph 1-*quater* of the Issuer Regulations. This definition refers to individuals 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 reporting directly to the CEO.

(€ million)	2018	2019
Wages and salaries	6	6
Post-employment benefits	-	-
Other long-term benefits	-	-
Fair value of long-term incentive plans	2	2
Total	8	8

Fees of Statutory Auditors

The fees of Statutory Auditors amounted to €237 thousand in 2019.

They included remuneration and all other retributive and social security contributions due for the function of Statutory Auditor of Saipem SpA or other companies within the consolidation scope that represented a cost to the Parent Company.

Average number of employees

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

(number)	Dec. 31, 2018	Dec. 31, 2019
Senior managers	384	390
Junior managers	3,986	4,138
White collars	14,957	15,809
Blue collars	12,201	11,784
Seamen	266	260
Total	31,794	32,381

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.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses are detailed below:

(€ million)	2018	2019
Depreciation and amortisation:		
- property, plant and equipment	455	455
- intangible assets	9	13
- right-of-use assets	-	147
Total depreciation and amortisation	464	615
Impairment losses:		
- property, plant and equipment	287	73
- intangible assets	60	-
- right-of-use assets	-	2
Total impairment losses	347	75
Total	811	690

The impairment losses on assets resulting mainly from the impairment tests are described as follows:

- > in the Offshore Drilling, some vessels were partially impaired following the impairment test for an amount of €58 million; moreover a jack-up was partially impaired for an amount of €15 million because it will be replaced, due to completion of the contract, by a leased rig;
 - > the right of use of one yard was impaired for €2 million, since there are no plans for its future use.
- For further details, see also the "Financial and economic results" section of the "Directors' Report".

Other operating income (expense)

There was no operating income (expense) during the year (€1 million expense in 2018).

33 Financial income (expense)

This item includes:

(€ million)	2018	2019
Financial income (expense)		
Financial income	209	515
Financial expense	(268)	(643)
Total	(59)	(128)
Derivative financial instruments	(106)	(82)
Financial income (expense)	(165)	(210)

Net financial income (expense) was as follows:

(€ million)	2018	2019
Net exchange gains (losses)	33	(4)
Exchange gains	200	507
Exchange losses	(167)	(511)
Financial income (expense) related to net financial debt	(89)	(114)
Interest income from banks and other financial institutions	6	6
Interest income on leases	-	1
Interest and other expense due to banks and other financial institutions	(95)	(94)
Interest expense on leases	-	(27)
Other financial income (expense)	(3)	(10)
Other financial income from third parties	3	1
Other financial expense to third parties	(3)	(8)
Interest cost on defined benefit plans	(3)	(3)
Net financial income (expense)	(59)	(128)

Net gains (losses) on derivatives consisted of the following:

(€ million)	2018	2019
Exchange rate derivatives	(106)	(82)
Interest rate derivatives	-	-
Total	(106)	(82)

Net losses on derivatives of €82 million (losses of €106 million in 2018) mainly related to the recognition in profit or loss 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.

Financial income (expense) with related parties are shown in Note 39 "Related party transactions".

34 Gains (losses) on equity investments

Effect of accounting using the equity method

The share of profit (loss) of equity-accounted investees consisted of the following:

(€ million)	2018	2019
Share of profit of equity-accounted investees	13	29
Share of loss of equity-accounted investees	(57)	(19)
Net utilisations of (accruals to) the provisions for losses on equity-accounted investments	(43)	(28)
Total	(87)	(18)

The share of profits (losses) of equity-accounted investees is commented in Note 18 "Equity investments".

Other gains (losses) on equity investments

There were no other gains (losses) on equity during the year (€1 million net losses in 2018).

35 Income taxes

Income taxes consisted of the following:

(€ million)	2018	2019
Current taxes:		
- Italian subsidiaries	15	28
- foreign subsidiaries	157	166
Net deferred taxes:		
- Italian subsidiaries	15	(28)
- foreign subsidiaries	7	(36)
Total	194	130

The reconciliation between the theoretical tax burden, calculated by applying a 24% tax rate (IRES) to pre-tax profit (loss) as provided for by Italian law, and the effective tax burden for the years ended December 31, 2018 and 2019 is as follows:

(€ million)	2018	2019
Pre-tax profit (loss)	(216)	228
Theoretical income tax	(52)	55
Items increasing (decreasing) tax rate:		
- different foreign subsidiaries tax rate	(2)	6
- permanent differences and other factors	109	12
- effect of Italian regional production tax (Irap) on Italian companies	1	-
- accruals to (utilisations of) tax provision	(2)	-
- Ires related to previous years	5	-
- unrecognised prepaid income taxes	93	96
- impairment (recognition) of deferred tax assets and income taxes	42	(39)
Total changes	246	75
Effective taxes	194	130

(€ million)	2018	2019
Income taxes recognised in income statement	194	130
Income tax related to items of other comprehensive income that may be reclassified to profit or loss	18	(7)
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	-	4
Tax on comprehensive income (loss)	212	127

36 Non-controlling interests

The share of profits of non-controlling interests amounted to €86 million (€62 million in 2018).

37 Earnings (loss) per share

Basic earnings (loss) per ordinary share are calculated by dividing profit or loss for the year attributable to the Group's shareholders by the weighted average of Saipem SpA ordinary shares outstanding during the year, excluding treasury shares.

The weighted average number of outstanding shares adjusted for the calculation of the basic earnings (loss) per ordinary share was 996,218,549 and 996,142,267 in 2019 and 2018, respectively.

Diluted earnings (loss) per share are calculated by dividing earnings (or loss) for the year by the weighted average number of Saipem SpA ordinary shares outstanding during the year, excluding treasury shares, increased by the potential number of shares that could be issued.

The weighted average number of outstanding shares used for the calculation of the diluted earnings (loss) per share was 1,012,759,677 and 1,014,249,982 in 2019 and 2018, respectively.

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

	Dec. 31, 2018	Dec. 31, 2019
Weighted average number of outstanding shares used for the calculation of the basic earnings (loss) per share	996,142,267	996,218,549
Number of potential shares following long-term incentive plans	18,097,117	16,530,530
Number of savings shares convertible into ordinary shares	10,598	10,598
Weighted average number of outstanding shares used for the calculation of the diluted earnings (loss) per share	1,014,249,982	1,012,759,677
Earnings (loss) attributable to the owners of the parent	(€ million)	(472)
Basic earnings (loss) per share	(€ per share)	(0.47)
Diluted earnings (loss) per share	(€ per share)	(0.46)

38 Segment reporting

Reporting by business segment

	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Unallocated	Total
(€ million)						
December 31, 2018						
Core business revenue	5,214	4,351	828	599	-	10,992
less: intra-group sales	1,362	643	363	98	-	2,466
Net revenue	3,852	3,708	465	501	-	8,526
Operating profit (loss)	305	(125)	(149)	6	-	37
Depreciation, amortisation and impairment losses	205	113	368	125	-	811
Gains (losses) on equity investments	(1)	(87)	-	-	-	(88)
Capital expenditure	345	28	66	46	-	485
Property, plant and equipment and intangible assets	2,682	511	1,256	579	-	5,028
Right-of-use assets	-	-	-	-	-	-
Equity investments ^(a)	113	(37)	-	2	-	78
Current assets	1,797	1,836	261	205	2,112	6,211
Current liabilities	1,428	2,285	104	154	459	4,430
Provisions for risks and charges ^(a)	93	119	2	10	65	289
December 31, 2019						
Core business revenue	5,131	4,641	905	639	-	11,316
less: intra-group sales	1,290	476	350	101	-	2,217
Net revenue	3,841	4,165	555	538	-	9,099
Operating profit (loss)	325	94	40	(3)	-	456
Depreciation, amortisation and impairment losses	307	83	176	124	-	690
Gains (losses) on equity investments	1	(19)	-	-	-	(18)
Capital expenditure	144	22	86	84	-	336
Property, plant and equipment and intangible assets	2,614	394	1,173	550	96	4,827
Right-of-use assets	409	101	59	12	3	584
Equity investments ^(a)	113	(9)	-	2	-	106
Current assets	1,115	2,474	265	201	2,957	7,012
Current liabilities	1,484	2,813	140	104	663	5,204
Provisions for risks and charges ^(a)	66	136	2	7	15	226

(a) See the section "Reconciliation of reclassified statement of financial position, income statement and statement of cash flows with the mandatory templates" on page 66.

For more details about reporting by business segment see the specific sections of the "Directors' Report".

Reporting by geographical segment

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 segment. As a result, certain assets have been deemed not directly attributable.

The unallocated part of property, plant and equipment and intangible assets and capital expenditure relates to vessels and their related equipment and goodwill.

The unallocated part of current assets pertained to inventories related to vessels.

A breakdown of revenue by geographical segment is provided in Note 31 "Revenue".

(€ million)	Italy	Rest of Europe	CIS	Rest of Asia	North Africa	Sub-Saharan Africa	Americas	Unallocated	Total
2018									
Capital expenditure	27	5	7	36	-	3	12	395	485
Property, plant and equipment and intangible assets	98	31	71	596	1	43	247	3,941	5,028
Right-of-use assets	-	-	-	-	-	-	-	-	-
Identifiable assets (current)	1,255	539	96	1,619	486	529	1,183	504	6,211
2019									
Capital expenditure	24	6	3	51	-	2	40	210	336
Property, plant and equipment and intangible assets	72	37	62	534	-	39	263	3,820	4,827
Right-of-use assets	82	102	1	93	4	23	11	268	584
Identifiable assets (current)	1,536	475	177	2,388	309	837	686	604	7,012

Current assets were allocated by geographical segment using the following criteria: (i) cash and cash equivalents and loan assets were allocated on the basis of the country in which individual company bank accounts were held; (ii) inventories were allocated on the basis of the country in which onshore storage facilities were situated (i.e. excluding inventories in storage facilities situated on vessels); (iii) trade receivables and other assets were allocated to the geographical segment 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".

39 Related party transactions

On January 22, 2016, following the entry into force of the transfer of 12.5% of Saipem SpA's share capital from Eni SpA to CDP Equity SpA (formerly Fondo Strategico Italiano SpA), Eni SpA no longer has sole control over Saipem SpA, which has been replaced by the joint control exercised by Eni SpA and CDP Equity SpA (taken over on December 13, 2019 by CDP Equity SpA), on the basis of the shareholders' agreement, with a resulting variation in the scope of related parties. Transactions with related parties entered into by Saipem SpA and/or companies within the consolidation scope 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 (from December 13, 2019, of CDP Industria SpA), and with entities controlled by the Italian State, in particular companies of the Snam Group. These transactions are an integral part of ordinary day-to-day business and are carried out under market conditions which would be applied between independent parties. All transactions were carried out for the mutual benefit of the Saipem SpA companies involved.

Directors, auditors, general managers and key management personnel must declare, every 6 months, any transactions they enter into with Saipem SpA or its subsidiaries, directly or through a third party. Directors and auditors release every six months and/or in the event of a change, a statement in which each potential interest is represented in relation to the parent and the Group and in any case report to the Chief Executive Officer (or the Chairman where the Chief Executive Officer is involved), who informs the other directors and the Board of Statutory Auditors of the individual transactions that the parent intends to perform, in which they have direct interests.

Saipem SpA is not under the management or coordination of any other company. Saipem SpA manages and coordinates its subsidiaries pursuant to Article 2497 of the Civil Code.

Within the framework of related party transactions and pursuant to disclosure requirements of Consob Regulation No. 17221 of March 12, 2010, during 2019 the following transaction was carried out, which exceeded the relevance threshold in compliance with the aforementioned Regulation in the Saipem SpA Management System Guideline "Transactions involving interests held by board directors and statutory auditors and transactions with related parties" for transactions of greater importance:

> contract for the "Supply and Installation of Risers & Flowline + Installation of Subsea Production Systems including Umbilicals for CABAÇA and supply of a production flowline + Installation of flexible jumpers for AGOGO" (hereinafter the Contract) between a consortium established by Saipem SA (86%), Saipem Luxembourg SA Sucursal de Angola (7%) and Petromar Lda (7%), (hereinafter "the Companies") on one side and Eni Angola SpA ("the Client"), on the other.

The Parties signed the Contract on December 19, 2019, and are required to issue, on a subsequent date, both bank guarantees and guarantees from the Parent Company (Parent Company Guarantees). The above-mentioned Guarantees were issued at the start of 2020.

The Contract signed with the Client provides for two different, independent projects, CABAÇA and AGOGO (hereinafter, "the Projects"), relating to two separate oil fields, both situated off the coast of Angola, Block 15/06.

The CABAÇA project scope consists of: Engineering, procurement, construction and installation of subsea pipelines (Risers and Flowlines) and Installation of subsea production systems, including umbilicals.

The AGOGO project scope consists of: Engineering, procurement, construction and installation of subsea structures (PLET - Pipeline End Termination) and Transport and installation of flexible subsea structures.

The signatory parties are common to both Projects, and both projects have the same guarantee conditions, applicable according to different time schedules.

With the signing of the Contract for the two Projects, the total value of the activities performed by the Saipem Group amounts to USD 218.6 million.

Considering the fact that: (i) Saipem SA and Saipem Luxembourg SA are controlled (one directly, one indirectly) by Saipem SpA, and that Petromar Lda is in any case a jointly controlled subsidiary of Saipem and third parties; (ii) Saipem SpA is in turn controlled jointly by Eni SpA and CDP Industria SpA; and (iii) Eni Angola SpA is a 100% Eni SpA subsidiary, the transaction concerned is configured as a transaction with related parties, as it is implemented with companies subject to common and joint control (chapter 2 of the Procedure).

The transaction, although qualified as of "greater importance" as it exceeds the countervalue significance index, is an ordinary transaction which is concluded at equivalent market or standard conditions, in that: (i) it falls within the ordinary performance of operational activities, relating to engineering services, the supply of materials and construction activities, the contents of which are part of the typical business of the Saipem Group, and particularly of the Offshore E&C Division; (ii) the award of the Projects is in line with the usual practices applicable to international tendering rules used in the Offshore E&C sector; (iii) the Contract is consistent with the application of contractual conditions in line with international practice; and (iv) the Contract was signed at economic, technical and contractual conditions that are in line with the practices used by the Offshore E&C Division for similar projects, and in any case at economic, technical and contractual conditions that are equivalent to those applied in the market.

Within all related party transactions, the relations held with Vodafone Italia SpA should be mentioned, as this company is related to Eni SpA via a member of the Board of Directors, in application of the Consob Regulation on transactions with related parties dated March 12, 2010 and the Saipem internal procedure "Transactions involving interests held by board directors and statutory auditors and transactions with related parties", available on the Company's website www.saipem.com, under the section "Governance/Related parties procedures". This relationship, governed at market conditions, essentially relates to costs for mobile communication services for €2 million and trade payables for €1 million.

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

- > unconsolidated subsidiaries;
- > joint ventures and associates;
- > companies controlled by Eni and CDP Equity SpA (from December 13, 2019, by CDP Industria SpA);
- > associates and jointly-controlled companies of Eni and CDP Equity SpA (from December 13, 2019, by CDP Industria SpA);
- > companies controlled by the State and other related parties.

Trade and other transactions

Trade and other transactions during 2018 consisted of the following:

(€ million)

Name	Dec. 31, 2018			2018			
	Trade and other receivables	Trade payables, other liabilities and contract liabilities	Guarantees	Expenses		Revenue	
				Goods	Services ⁽¹⁾	Goods and Services	Other
Joint ventures and associates							
ASG Scarl	1	(3)	-	-	(5)	1	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	46	165	261	-	20	27	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	(1)	5	119	-	1	(3)	-
Consorzio F.S.B.	-	-	-	-	1	-	-
KWANDA Suporte Logistico Lda	26	7	-	-	-	6	-
Petromar Lda	19	2	-	-	-	12	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	12	9	-	-	1	2	-
Tecnoprojecto Internacional Projectos e Realizações Industriais SA	1	-	-	-	-	-	-
TSGI Mühendislik İnşaat Ltd Şirketi	13	-	-	-	-	8	-
Xodus Subsea Ltd	3	2	-	-	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	1	-
Total joint ventures and associates	120	187	380	-	18	54	-
Companies controlled by Eni and CDP Equity SpA							
Eni SpA	8	3	133	-	5	14	-
Eni SpA Divisione Exploration & Production	6	-	-	-	1	66	-
Eni SpA Divisione Gas & Power	2	1	-	-	-	-	-
Eni SpA Divisione Refining & Marketing	4	-	11	-	-	23	-
Eni Angola SpA	5	-	35	-	-	176	-
Eni Congo SA	16	1	3	-	-	46	-
Eni Corporate University SpA	-	1	-	-	1	-	-
Eni Cyprus Ltd	-	-	-	-	-	12	-
Eni East Sepinggan Ltd	10	2	7	-	-	21	-
Eni Ghana E&P	36	-	5	-	-	76	-
Eni Iraq BV	-	-	2	-	-	-	-
Eni Maroc BV	-	-	-	-	-	11	-
Eni Mediterranea Idrocarburi SpA	-	-	-	-	-	1	-
Eni Muara Bakau BV	-	3	18	-	-	9	-
Eni North Africa BV	6	-	-	-	-	6	-
Eni Pakistan Ltd	7	-	-	-	-	7	-
Eni Portugal BV	-	-	-	-	-	(2)	-
Eni Vietnam BV	-	-	-	-	-	7	-
EniProgetti SpA	3	-	-	-	-	6	-
EniServizi SpA	-	7	-	-	36	-	-
Floaters SpA	2	-	-	-	-	2	-
leoc Exploration BV	-	-	1	-	-	-	-
leoc Production BV	47	-	-	-	-	87	-
Naoc - Nigerian Agip Oil Co Ltd	80	59	-	-	5	140	-
Nigerian Agip Exploration Ltd	7	1	-	-	-	7	-
Serfactoring SpA	-	1	-	-	-	-	-
Société pour la Construction du Gasoduc Transtunisien SA (COGAT)	-	-	-	-	-	1	-
Versalis SpA	5	-	26	-	-	17	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	1	-	-
Total companies controlled by Eni and CDP Equity SpA	245	79	241	-	49	733	-

Trade and other transactions during 2018 consisted of the following:

(€ million)

Name	Dec. 31, 2018			2018			
	Trade and other receivables	Trade payables, other liabilities and contract liabilities	Guarantees	Expenses		Revenue	
				Goods	Services ⁽¹⁾	Goods and Services	Other
Eni and CDP Equity SpA associates and jointly-controlled companies							
Blue Stream Pipeline Co BV	-	-	-	-	-	1	-
Greenstream BV	1	-	-	-	-	2	-
Mellitah Oil&Gas BV	-	-	30	-	-	2	-
Mozambique Rovuma Venture SpA (ex Eni East Africa SpA)	1	-	-	-	-	-	-
Petrobel Belayim Petroleum Co	346	42	178	-	-	923	-
PetroJunin SA	-	-	2	-	-	-	-
Pharaonic Petroleum Co	-	-	2	-	-	-	-
Raffineria di Milazzo	7	5	-	-	-	8	-
Others (for transactions not exceeding €500 thousand)	-	1	-	-	-	-	-
Total Eni and CDP Equity SpA associates and jointly-controlled companies	355	48	212	-	-	936	-
Total Eni and CDP Equity SpA companies	600	127	453	-	49	1,669	-
Companies controlled or owned by the State	36	27	67	-	1	30	-
Total related party transactions	756	341	900	-	68	1,753	-
Overall total	2,644	3,879	5,461	1,780	4,285	8,526	12
Incidence (%)	28.67	8.79	16.48	-	1.59	20.56	-

(1) The item "Services" includes costs for services, costs for the use of third party assets and other charges and the reversals of impairment losses (impairment losses) of trade receivables and other assets.

Trade and other transactions during 2019 consisted of the following:

(€ million)

Name	Dec. 31, 2019			2019			
	Trade and other receivables	Trade payables, other liabilities and contract liabilities	Guarantees	Expenses		Revenue	
				Goods	Services ⁽¹⁾	Goods and Services	Other
Unconsolidated subsidiaries							
Smacemex Scarl	5	4	-	-	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
Total unconsolidated subsidiaries	5	4	-	-	-	-	-
Joint ventures and associates							
ASG Scarl	1	(3)	-	-	-	-	-
CCS JV Scarl	211	334	-	-	156	189	-
CEPAV (Consorzio Eni per l'Alta Velocità) Due	56	185	242	-	47	57	-
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	(1)	4	70	-	-	-	-
Consorzio F.S.B.	-	-	-	-	1	-	-
Gydan Lng Snc	2	-	-	-	-	2	-
KWANDA Suporte Logistico Lda	1	5	-	-	-	4	-
Petromar Lda	8	1	-	-	1	8	1
PSS Netherlands BV	33	-	-	-	-	63	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	12	15	-	-	13	1	-
Saren BV	40	-	-	-	-	40	-
TSGI Mühendislik İnşaat Ltd Şirketi	15	-	-	-	-	1	-
Others (for transactions not exceeding €500 thousand)	1	-	-	-	-	1	-
Total joint ventures and associates	379	541	312	-	218	366	1

Trade and other transactions during 2019 consisted of the following:

(€ million)

Name	Dec. 31, 2019			2019			
	Trade and other receivables	Trade payables, other liabilities and contract liabilities	Guarantees	Expenses		Revenue	
				Goods	Services ⁽¹⁾	Goods and Services	Other
Companies controlled by Eni/CDP Equity SpA (from December 13, 2019 CDP Industria SpA)							
Eni SpA	5	3	11	-	5	12	-
Eni SpA Divisione Exploration & Production	1	1	-	-	2	16	-
Eni SpA Divisione Gas & Power	-	-	-	-	(1)	-	-
Eni SpA Divisione Refining & Marketing	1	-	11	-	-	3	-
Eni Angola SpA	28	-	44	-	-	259	-
Eni Congo SA	11	4	2	-	(1)	21	-
Eni Corporate University SpA	-	1	-	-	1	-	-
Eni East Sepinggan Ltd	20	4	11	-	-	38	-
Eni Gas e Luce SpA	-	-	-	-	1	-	-
Eni Ghana E&P	4	15	7	-	-	66	-
Eni Iraq BV	-	-	2	-	-	-	-
Eni Mediterranea idrocarburi SpA	-	-	-	-	-	1	-
Eni México, S. de R.L. de Cv	13	2	-	-	-	28	-
Eni Muara Bakau BV	-	-	19	-	1	47	-
Eni North Africa BV	-	-	-	-	-	10	-
Eni Pakistan Ltd	-	-	-	-	-	31	-
EniPower SpA	1	-	-	-	-	1	-
EniProgetti SpA	3	-	-	-	-	8	-
EniServizi SpA	-	9	-	-	36	-	-
Floaters SpA	1	-	-	-	-	6	-
leoc Exploration BV	-	-	2	-	-	-	-
leoc Production BV	15	-	-	-	-	76	-
Naoc - Nigerian Agip Oil Co Ltd	76	69	-	-	-	103	-
Nigerian Agip Exploration Ltd	-	2	-	-	-	8	-
Versalis SpA	3	-	23	-	-	11	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
Total companies controlled by Eni and CDP Equity SpA (from December 13, 2019 CDP Industria SpA)	182	110	132	-	44	745	-
Eni and CDP Equity SpA associates and jointly-controlled companies (from December 13, 2019 CDP Industria SpA)							
Blue Sream Pipeline Co BV	-	-	-	-	-	1	-
Greenstream BV	1	-	-	-	-	2	-
Mellitah Oil&Gas BV	9	-	32	-	-	19	-
Mozambique Rovuma Venture SpA (ex Eni East Africa SpA)	25	-	-	-	-	33	-
Petrobel Belayim Petroleum Co	190	66	394	-	-	1,158	-
PetroJunin SA	-	-	2	-	-	-	-
Raffineria di Milazzo	1	3	-	-	-	5	-
Others (for transactions not exceeding €500 thousand)	-	-	-	-	-	-	-
Total Eni and CDP Equity SpA associates and jointly-controlled companies (from December 13, 2019 CDP Industria SpA)	226	69	428	-	-	1,218	-
Total Eni and CDP Equity SpA companies (from December 13, 2019 CDP Industria SpA)	408	179	560	-	44	1,963	-
Companies controlled or owned by the State	21	22	70	-	9	33	-
Total related party transactions	813	746	942	-	271	2,362	1
Overall total	2,601	4,376	7,234	1,815	4,444	9,099	19
Incidence (%)	31.26	17.05	13.02	0.00	6.10	25.96	5.26

(1) The item "Services" includes costs for services, costs for the use of third party assets and other charges and the reversals of impairment losses (impairment losses) of trade receivables and other assets.

The figures shown in the tables refer to Note 11 "Trade receivables and other assets", Note 20 "Trade payables, other liabilities and contract liabilities", Note 30 "Guarantees, commitments and risks", Note 31 "Revenue (core business revenue and other revenue and income)", and Note 32 "Operating expenses (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, 2018		Dec. 31, 2019	
	Other assets	Other liabilities	Other assets	Other liabilities
CEPAV (Consorzio Eni per l'Alta Velocità) Uno	1	-	1	-
Total related party transactions	1	-	1	-
Overall total	167	101	170	46
Incidence (%)	0.60	-	0.59	-

Financial transactions

Financial transactions for 2018 were as follows:

(€ million)	Dec. 31, 2018				2018		
	Cash and cash equivalents	Loan assets ⁽¹⁾	Loans and borrowings	Commitments	Expenses	Income	Derivative financial instruments
Petromar Lda	-	-	-	-	-	1	-
Serfactoring SpA	-	2	-	-	-	-	-
Total related party transactions	-	2	-	-	-	1	-

(1) Shown in the statement of financial position under "Other current financial assets".

Financial transactions, excluding net lease liabilities, for 2019 consisted of the following:

(€ million)	Dec. 31, 2019				2019		
	Cash and cash equivalents	Loan assets ⁽¹⁾	Loans and borrowings	Commitments	Expenses	Income	Derivative financial instruments
CCS JV Scarl	-	146	-	-	-	-	-
Saipem Taqa Al Rushaid Fabricators Co Ltd	-	-	-	-	-	1	-
Serfactoring SpA	-	2	-	-	-	-	-
Others (for transactions not exceeding €500 thousand)	-	-	1	-	-	-	-
Total related party transactions	-	148	1	-	-	1	-

(1) Shown in the statement of financial position under "Other current financial assets".

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

(€ million)	Dec. 31, 2018			Dec. 31, 2019		
	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Current financial liabilities	80	-	-	164	1	0.61
Non-current financial liabilities (including current portion)	2,871	-	-	2,914	-	-
Total	2,951	-	-	3,078	1	-

(€ million)	2018			2019		
	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Financial income	209	1	0,48	515	1	0.19
Financial expense	(268)	-	-	(643)	-	-
Derivative financial instruments	(106)	-	-	(82)	-	-
Other operating income (expense)	(1)	-	-	-	-	-
Total	(166)	1	-	(210)	1	-

Financial lease transactions

Financial lease transactions at December 31, 2019 consisted of the following:

(€ million)

Name	Dec. 31, 2019			2019		
	Cash and cash equivalents	Receivables	Payables	Commitments	Expenses	Income
Eni SpA	-	-	1	-	-	-
Consorzio F.S.B.	-	-	2	-	-	-
Total related party transactions	-	-	3	-	-	-

The incidence of transactions or positions with related parties relating to financial lease transactions is as follows:

(€ million)	Dec. 31, 2019		
	Total	Related parties	Incidence %
Long-term leases (including portion of short-term leases)	626	3	0.48
Total	626	3	

The main cash flows with related parties were as follows:

(€ million)	Dec. 31, 2018	Dec. 31, 2019
Revenue and income	1,753	2,363
Costs and other expenses	(68)	(271)
Financial income (expense) and derivatives	1	1
Change in trade receivables and payables	(261)	348
Net cash flows from operating activities	1,425	2,441
Change in loans and borrowings	-	(146)
Net cash flows from investing activities	-	(146)
Change in loans and borrowings	-	1
Net cash flows from financing activities	-	1
Total cash flows with related parties	1,425	2,296

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

(€ million)	Dec. 31, 2018			Dec. 31, 2019		
	Total	Related parties	Incidence %	Total	Related parties	Incidence %
Cash flows from operating activities	711	1,425	200,42	1,257	2,441	194.19
Cash flows from investing activities	(551)	-	-	(516)	(146)	28.29
Cash flows from financing activities (*)	(172)	-	-	(1)	1	100.00

(*) Cash flows from financing activities not include dividends distributed, net repurchases of treasury shares or capital contributions by non-controlling interests and the purchase of additional interests in consolidated subsidiaries.

Information on jointly controlled entities

Jointly-controlled companies classified as joint operations don't have a significant value.

40 Significant non-recurring events and operations

No significant non-recurring events or operations took place in 2019.

41 Transactions deriving from atypical or unusual transactions

In 2018 and 2019, no atypical and unusual transactions were reported.

42 Outlook and events after the reporting period

COVID-19 pandemic

Saipem has launched its analysis, still in progress due to the ongoing evolution of the situation, of the possible effects of the COVID-19 pandemic ("Coronavirus"), in terms of: (i) evolution of the reference contexts and in particular monitoring the measures taken by the countries in which Saipem operates; (ii) management of relations with customers and partners; (iii) activation of specific contractual clauses; (iv) impact on project execution, particularly on operations at worksites and on naval vessels, due to

changes in the availability of internal and external resources and/or other circumstances resulting, directly or indirectly, from the pandemic; (v) levels of performance and continuity of service by suppliers, subcontractors and partners.

Since the outbreak of the Coronavirus pandemic worldwide and in Italy in particular, Saipem has been working relentlessly to guarantee the health and safety of its employees, customers and suppliers, in compliance with the indications provided by the Italian Ministry of Health and the Regions involved.

Saipem promptly activated its Crisis Response Protocol, developing a specific Crisis Response Plan and immediately put in place a series of measures at all levels of the organisation both at headquarters and on the projects and working sites abroad, involving all the relevant functions. The Saipem Crisis Unit in Milan is open 24/7 and is constantly in contact providing coordination with the parent's 52 Local Crisis Units worldwide; it periodically reviews the situation daily and adjusts the status of the action plan with the Corporate Crisis Committee chaired by the CEO.

All travel abroad, to and from risk areas, has been cancelled or reduced to a minimum, and will be limited to guaranteeing operational requirements, also considering that specific limitations may be placed on travelling to and from Italy.

Saipem has also been making wide use of the smart working option, which involves almost the entirety of its resources in Italy, to ensure seamless continuity vis-à-vis the requirements of projects currently under execution.

With regard to **financial stress scenario**, the Finance Department of Saipem SpA is constantly monitoring the Group's current and prospective liquidity. For the control and efficient use of its liquidity, the Saipem Group avails itself, among other things, of a central cash pooling system and automatic reporting tools.

As of March 12, 2020, the date this Report was approved by the Board of Directors, no significant impacts were reported on activities of collection or payment due, directly or indirectly, to the spread of the Coronavirus contagion worldwide.

As of that date, cash and cash equivalents were in line with financial programming and appeared adequate to cover current and prospective operating needs.

The financial debt of the Saipem Group does not show any amounts of significant size payable in 2020 and 2021 as the Group recently repaid in advance the loan of €500 million that would have been due in 2021.

The next significant payment deadlines, relative to three bond issues for €500 million each, are not due until April 2022, 2023 and 2025.

A further safety margin is represented by the Revolving Credit Facility ("RCF") line of €1 billion, which will expire in 2023, and which to date is completely unused, as well as lines of "non committed hot money" for about €240 million.

In conclusion, as of March 12, 2020, the date this Report was approved by the Board of Directors and published, there were no signs of potential financial stress.

The Finance Department of Saipem SpA remains fully operational and guarantees constant and complete monitoring of liquidity. With regard to the recent turbulence in the **oil price** at the beginning of March, the outcome of the OPEC meeting in early March and Saudi Arabia's decision to increase its production of crude oil, combined with the effects of the Coronavirus epidemic, perceived as impacting potential future demands, caused a sharp drop in oil prices.

This sharp drop in prices and the imbalance prospects between oil supply and demand has prompted the major oil companies to reduce their spending estimates for 2020, and to re-evaluate those for 2021 (assessments are ongoing), dragging down the stock prices of companies in the oil value chain, including Saipem and other companies operating in the energy services sector. The Saipem share price, at the close of April 1, 2020, recorded a 49% drop from the beginning of 2020, outperforming its main peer groups, both in engineering and construction, and drilling.

The continuation of low oil prices could substantially affect future investments decisions by oil companies, even beyond the current year.

It should be noted that Saipem designs and constructs systems commissioned by clients on the basis of long-term investment assessments, whose realisation from the initial concept phase of the initiative, through development and construction, takes on average between four and seven years, depending on the complexity of the project.

Due to the nature of its the business and the diversification in various segments, there is no direct correlation between the trend in oil prices and Saipem's financial results; whose E&C backlog, at the end of 2019, was made up of approximately 68% of non-oil projects, including LNG and renewables.

On the basis of the available information currently available, the COVID-19 pandemic, in line with the application of the international accounting standards, has been classified as a "Non Adjusting" event (IAS 10) event; as recommended also by ESMA's recent communication, the nature of the event has been described in this section and, given the context of general uncertainty, there are no elements to quantify its impact.

At year end the record backlog level, combined with good visibility in the short-term on current commercial tenders, underpin revenues for 2020 at around €10 billion, with an adjusted EBITDA above €1.1 billion (post-IFRS 16). Capital expenditure is expected to increase to around €600 million, also considering the postponement of some 2019 initiatives and activities.

The evolution and persistence of the epidemic around the world could have non-quantifiable and significant effects on the commercial and operational activities and consequently on the Group's economic and financial position, also in light of the following:

- > construction yards and logistical bases: limited productivity due to travel to and work restrictions at operating sites, as well as delays in engineering activities;
- > ongoing projects: reductions in the scopes of work, interruption of projects due to "force majeure", slowing down of activities due to a reduction in project personnel, requests for discounts from clients on drilling rates, problems relating to the rotation of personnel abroad and rota team changes;
- > current commercial tenders: lengthening of contract award timeframes in 2020 and the postponement of contract awards from 2020 to 2021 with an increase in assets being idle.

The Company is working to quantify the relevant impacts and, only following this analysis, it will be in a position to review the annual estimate forecasts and to reschedule the timing for the verification and the possible re-elaboration of the Strategic Plan.

Repayment of the bond issue “€500,000,000 3.000% Notes Due 8 March 2021”

As of January 31, 2020, with reference to the bonds named “€500,000,000 3.000% Notes Due 8 March 2021” (the “Bonds”) issued by Saipem Finance International BV with reference to the Euro Medium Term Note Programme, Saipem Finance International BV decided to exercise its pre-payment option for 100% of the nominal amount of the Bonds in circulation according to the terms and conditions regulating the Bonds. The bonds were pre-paid on March 3, 2020.

New contracts

As announced on February 6, 2020, Saipem has been awarded new EPCI contracts in several countries around the world: for Saudi Aramco, a Long Term Agreement contract in force until 2021 in Saudi Arabia; for Eni Angola, a development contract for the Cabaça field and the Agogo preliminary phase 1 in Western Africa; on behalf of Noble Energy, a contract for the installation of an offshore gas pipeline connecting the Alen platform to Punta Europa on the coast of Equatorial Guinea; other smaller contracts relating to the decommissioning of existing infrastructures on the Thistle field in the North Sea, to be performed by the Saipem 7000 and two offshore transport and installation contracts in the Middle East and the Gulf of Mexico.

Distribution of dividends

The Board of Directors resolved to propose to the Ordinary Shareholders’ Meeting, convened for April 29, 2020 (single call), to approve an ordinary dividend, arising from distributable reserves comprising retained earnings, of €0.01 per ordinary share and savings share as, pursuant to Article 6, paragraph d) of the Articles of Association, “in the case of distribution of reserves, savings shares have the same rights as other categories of shares issued by the Company”.

The dividend will be paid out on May 20, 2020 (dividend date May 18, 2020 and record date May 19, 2020).

Short-term Incentive Plan 2021-2023

On March 12, 2020, the Board of Directors, having obtained the approval of the Board of Statutory Auditors pursuant to Article 2389, section 3 of the Italian civil code, resolved to submit for the approval of the Shareholders’ Meeting the adoption of a short-term variable incentive Plan for the three-year period 2021-2023, linked to the performance in the years 2020-2022 (the “Plan”), developed according to a proposal of the Compensation and Nomination Committee, made up entirely of non-executive and independent Directors.

In addition, the Board of Directors resolved, following a proposal of the Compensation and Nomination Committee, to submit the following proposal to the Shareholders’ Meeting for authorisation to repurchase treasury shares:

- > up to a maximum of 3,500,000 ordinary shares and, in any case, for a maximum amount of €17,200,000, to be assigned to the 2021 attribution of the short-term Incentive Plan 2021-2023.

The authorisations for the repurchase of treasury shares are requested for a period of eighteen months from the date of the resolution of the Shareholders’ Meeting.

Buy-back programme for Saipem ordinary shares to cover the 2019-2021 Long-Term Incentive Plan

As announced on March 18, 2020, over the period March 13-17, 2020 (inclusive), a total of No. 7,934,080 treasury shares (representing 0.785% of the share capital) were bought back, corresponding to the number indicated by the Board of Directors at their meeting of October 23, 2019, for 2019 attribution. All buy-back transactions were made on the regulated Computerized Trading Market MTA at an average price of €2.0775 per share, for a total counter-value of €16,505,959 (fees and taxes included). Accordingly, having regard for the other treasury shares already held at the start of the Programme (No. 14,724,205 shares, representing 1.46% of the share capital) and the treasury shares purchased under the Programme, at today’s date Saipem holds 22,658,285 treasury shares representing 2.241% of the share capital.

In addition, the Board of Directors resolved, following a proposal of the Compensation and Nomination Committee, to submit the following proposal to the Shareholders’ Meeting on April 29, 2020 for authorisation to purchase treasury shares:

- > up to a maximum of 19,000,000 ordinary shares and, in any case, for a maximum amount of €93,000,000, to be assigned to the 2020 cycle of the long-term Incentive Plan 2019-2021.

Obligations regarding transparency and disclosure. Italian Law August 4, 2017, No. 124 (Article 1, sections 125-129)

During 2019, Saipem SpA and the Italian companies in the sector received no public funds pertaining to application of Law No. 124/2017 (Article 1, sections 125-129) and subsequent amendments.

In particular, the following do not pertain to the sector of application of the above-mentioned law: (i) forms of incentive/grants received in application of a general scheme of aid to all those having the right; (ii) fees applied to the provision of works/services, including sponsorships; (iii) reimbursements and indemnities paid to persons engaged in training and orientation courses; (iv) contributions received for continuous training by interprofessional funds established in the legal form of associations; (v) membership dues for belonging to associations of the category and territorial associations, also in favour of foundations or equivalent organisations, functional to the activities connected with the company business. The contributions are identified according to the cash criterion.

The information referring to the sector of application of the above-mentioned law includes contributions for amounts in excess of €10,000 made by the same party during 2019, also via several deeds.

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

On January 30, 2018, Consob, having concluded its inspection commenced on November 7, 2016 (which ended on October 23, 2017) and about which Saipem gave information in the Annual Report 2016, has informed Saipem that it has detected non-compliances in "the Annual Report 2016, as well as in the Interim Consolidated Report as of June, 30 2017" with the applicable international accounting standards (IAS 1 "Presentation of Financial Statements"; IAS 34 "Interim Financial Reporting"; IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", par. 5, 41 and 42; IAS 36 "Impairment of Assets", par. 31, 55-57) and, consequently, has informed Saipem about the commencement "of proceedings for the adoption of measures pursuant to Article 154-ter, subsection 7, of Legislative Decree No. 58/1998".

With notes of February 13 and 15, 2018, the Company transmitted to Consob its own considerations in relation to the remarks formulated by the offices of Consob, highlighting the reasons for which it does not share such remarks.

On March 2, 2018, the Commission of Consob, partially accepting the remarks of the offices of Consob, informed Saipem of its own Resolution No. 20324 (the "Resolution"), with which it ascertained the "non-compliance of the Saipem's Annual Report 2016 with the regulations governing their predisposition", without censuring the correctness of the Interim Consolidated Report as of June 30, 2017.

According to the Resolution, the non-compliance of the Saipem's Annual Report 2016 with the regulations which govern its preparation, concerns in particular: (i) the incorrect application of the accrual basis of accounting affirmed by IAS 1; (ii) the non-application of IAS 8 in relation to the correction of errors with reference to the financial statements of 2015; and (iii) the estimation process of the discount rate pursuant to IAS 36.

Consob has therefore asked the Company, pursuant to Article 154-ter, subsection 7, of Legislative Decree No. 58 of 1998, to disclose the following elements of information to the markets:

- (A) the weaknesses and non-compliance identified by Consob in relation to the accounting correctness of the financial statements mentioned above;
- (B) the applicable international accounting standards and the violations detected in relation thereto;
- (C) the illustration, in an appropriate pro forma consolidated income statements and balance sheet – with comparative data – of the effects that accounting in compliance with the regulations would have produced on 2016 balance sheet, income statement and shareholders' equity, for which incorrect information was supplied.

A. Weaknesses and non-compliance identified by Consob regarding the correctness of accounting in the consolidated and statutory financial statements of 2016.

The weaknesses and non-compliance identified by Consob with regard to the 2016 consolidated and statutory financial statements can be substantially attributed to the following two items:

- (a) non-compliance of the "2016 consolidated and statutory Saipem SpA financial statements with reference to the comparative data for 2015";
- (b) non-compliance of the process of estimation of the discount rate underpinning the 2016 impairment test with IAS 36 which requires that the Company must "apply the appropriate discount rate to [...] future cash-flows".

With regard to point (a), the contestation concerns the non-compliance of the 2016 consolidated and statutory financial statements with:

- (i) IAS 1, par. 27, according to which "an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting" and par. 28, according to which "when the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework"; and
- (ii) IAS 8, par. 41, according to which "[...], material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period" and par. 42 according to which "the entity shall correct the material prior period errors retrospectively in the first financial statements authorised for issue after their discovery by: (a) restating the comparative amounts for the year/years prior to the one in which the error occurred [...]".

In substance, in Consob's opinion, the circumstances at the basis of some of the impairment losses recognised in the 2016 financial statements already existed, wholly or in part, when preparing 2015 financial statements. Indeed, Consob alleges that the Company approved 2016 consolidated and statutory financial statements without having corrected the "material errors" contained in the consolidated and statutory financial statements of the previous administrative period, in relation to the following items:

- > "property, plant and equipment";
- > "inventories";
- > "tax assets".

With regard to point sub (b), Consob alleges that the Company, for the purposes of the impairment test: (i) used a single rate to discount business unit cash flows, characterised by a different risk profile; (ii) did not consider the country risk in relation to some assets operating in specific geographical areas over a long period of time; (iii) did not take into account the changes in Company risk profile subsequent to the transaction that determined the deconsolidation of Saipem from the Eni Group.

B. The applicable accounting standards and the violations encountered in relation thereto.

Consob holds that the 2016 consolidated and statutory financial statements of Saipem at December 31, 2016, were not compliant with the following standards: IAS 1, IAS 8 and IAS 36.

Specifically, Consob has observed that the Company approved the 2016 consolidated and statutory financial statements without having corrected the “material errors” contained in the consolidated and statutory financial statements of the previous period, in relation to the following items:

- > “property, plant and equipment”;
- > “inventories”;
- > “tax assets”.

With reference to the item “property, plant and equipment” at December 31, 2015, Consob alleges the incorrect application of IAS 16 “Property, plant and equipment” and of IAS 36.

Specifically, Consob alleges that some impairment losses carried out by the Company on “property, plant and equipment” in the 2016 consolidated financial statements should have been accounted for, at least in part, in the previous year.

In particular Consob alleges:

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

As a consequence of the above mentioned remarks, Consob likewise does not agree with the recognition of the impairment losses included in the 2016 consolidated and statutory financial statements with reference to some inventories and to a deferred tax asset related to the items criticised by Consob for which the items of the impairment loss according to Consob should have been accounted for in 2015.

Consob notes in this regard:

- (i) IAS 2, par. 9, that “inventories shall be measured at the lower of cost and net realisable value” and at par. 30 that “estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise”;
- (ii) IAS 12 in the part that requires at par. 34 that “a deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised” and that “to the extent that it is not probable that taxable profit will be available against which unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised”.

Furthermore, Consob criticises the process of estimating the discount rate at the base of the impairment test for 2016 in so far as it is characterised by an approach that is not compliant with IAS 36 which requires that the Company “shall apply the appropriate discount rate to the future cash flows”. More precisely, with respect to 2016 Consob does not agree with the approach taken by the Company, i.e., with reference to the execution of the impairment test it: (i) has used a single rate to discount cash flows of different business units which are characterised by different risk profiles; (ii) has not considered the country risk in relation to some assets operating in specific geographical areas over a long period of time.

In relation to the above, Consob also alleges the violation of the principle of correct representation of the company's situation which would not guarantee the observance of fundamental assumptions and qualitative characteristics of information. Consob believes, in fact, that the importance of the errors and the significance of the shortcomings can likewise determine the non-compliance of the aforementioned financial statements with the requirements of reliability, prudence and completeness, pursuant to IAS 1.

C. Illustration, in appropriate pro-forma consolidated statement of financial position and income statement – supported by comparative data – of the effects that accounting in compliance with the regulations would have produced on the company's financial position and on equity at December 31, 2016 and the income statement for the year then ended, for which incorrect information was supplied.

While not sharing the judgement of non-compliance of the 2016 consolidated and statutory financial statements put forward by Consob in its Resolution, Saipem points out that the 2016 consolidated and statutory financial statements of the Company were approved by the Board of Directors on March 16, 2017 and by the Shareholders' Meeting on April 28, 2017 and were subject to audit pursuant to Legislative Decree No. 39 of January 27, 2010 and the report was issued on April 3, 2017.

In addition, with the press release of March 6, 2018, Saipem reported that "the Board of Directors of Saipem, in disagreement with the Resolution of Consob, resolved on March 5, 2018 to appeal the Resolution in the competent courts".

In the press release dated March 21, 2018 Saipem reported that for the purposes of ensuring a correct interpretation, and in order to implement the findings of the Resolution, today the Company has filed a petition with Consob in order to obtain interpretative clarifications suitable for overcoming the technical and evaluation complexities related to the findings of the Authority and to be able, in this way, to inform the market correctly, reaffirming that it does not share – and has no intention of accepting – the judgement of non-compliance of the consolidated and statutory financial statements as at December 31, 2016.

On April 27, 2018, Saipem lodged an appeal at the Regional Administrative Court ("TAR") of Lazio requesting the annulment of the Resolution and of any other presumed or related act and/or provision.

On May 24, 2018, Saipem filed with the TAR-Lazio additional grounds for appeal against the aforementioned Resolution.

The date for the hearing before the TAR-Lazio has not yet been scheduled.

On April 16, 2018, Saipem issued a press release regarding the pro forma consolidated income statements and statement of financial position as at December 31, 2016 for the sole purpose of complying with the Resolution.

On April 6, 2018, after the closure of the market, the Offices of the Italian securities market regulator Consob (Divisione Informazione Emittenti - Issuer Information Division) announced with their communication No. 0100385/18 (the "Communication"), that they started an administrative sanctioning procedure, claiming some violations pursuant to Articles 191 and 195 of Italian Legislative Decree No. 58/1998 (the "Financial Law"), relating to the offer documentation (Prospectus and Supplement Prospectus) made available to the public by Saipem on the occasion of its capital increase operation, which took place in January and February 2016. The alleged violations were exclusively addressed to the members of the Board of Directors and the Chief Financial Officer/Officer Responsible for Financial Reporting in office at that time.

The Offices of Consob, in communicating their allegations to the interested parties also pointed out that, if the alleged violations were ascertained by the Commission of Consob at the outcome of the procedure, said violations "would be punishable by an administrative fine between €5,000 and €500,000".

Saipem received notice of the communication solely as guarantor ex lege for the payment "of any economic fines that may eventually be charged to the company executives at the outcome of the administrative procedure".

The allegations follow Consob Resolution No. 20324 of March 2, 2018 (the "Resolution"), the content of which was communicated to the market by the Company with its press release of March 5, 2018. The Resolution – with which, as also communicated to the market, the Company disagreed and that it will appeal before the Regional Administrative Tribunal (TAR) of Lazio – alleged, among other things, "the inconsistency of the assumptions and elements underlying the Strategic Plan for 2016-2019 with respect to the evidence at the disposal of the administrative bodies", as the indicators of possible impairment of value of the assets, later impaired by Saipem in its nine-month interim report as of September 30, 2016 would already have existed, in the opinion of Consob, at the time of approval of the consolidated financial statements of 2015.

With its Communication, the Offices of Consob have charged the company executives who, at the time of the capital increase, performed management functions, with the violations that are the subject of the Resolution and have already been communicated to the market, as stated above. The Offices of Consob further claim certain "elements relative to the incorrect drafting of the declaration on the net working capital" required by the standards in force applicable to the prospectus.

The foregoing would imply, according to the Offices of Consob, "the inability of the offer documentation to ensure that the investors would be able to formulate a well-grounded opinion about the equity and financial situation of the issuer, its economic results and prospects, pursuant to Article 94, sections 2 and 7, of the Financial Law, with regard to the information concerning: a) estimates of the Group's results for 2015 (Guidance 2015 and underlying assumptions); "b) forecast of the Group results drawn from the Strategic Plan for 2016-2019 and underlying assumptions"; "c) the declaration on the Net Working Capital".

Also according to the Offices of Consob, Saipem would have additionally omitted, in violation of Article 97, section 1 and Article 115, section 1, letter a), of the Financial Law, to report to Consob "information pertaining to: (i) the assumptions underlying the declaration on its Net Working Capital; (ii) the availability of an updated 'Eni Scenario' on the price of oil; and (iii) the existence of significant amendments to the assumptions underlying the Strategic Plan for 2016-2019". On July 4, 2018, Saipem, as guarantor ex lege for the payment "of any fines that may eventually be charged to the company executives at the outcome of the administrative procedure", submitted its defence to Consob.

Saipem and all the company executives who have received the Communication have proceeded to file their defences with the Consob Offices.

Consob, with its Resolution No. 20828 of February 21, 2019, communicated to Saipem on March 12, 2019 and adopted at the outcome of the procedure for application of a fine initiated on April 6, 2018, applied the following fines: a) €200,000 on the company CEO; b) €150,000 on the Officer responsible for financial reporting in office at the time of the capital increase in 2016. Consob also sentenced Saipem SpA to a payment of €350,000, as the party jointly liable for payment of the aforementioned administrative fines with the two persons fined pursuant to Article 195, section 9, of the Finance Law (in force at the time of the alleged violations), with obligation to recourse against the authors of the alleged breaches.

Consob ordered the filing of the procedure launched on April 6, 2018, against the non-executive Directors in office at the time of the facts alleged.

The Board of Directors of Saipem resolved on April 2, 2019 to appeal the Resolution No. 20828 before the Court of Appeal.

A similar appeal was filed by the two individuals sanctioned under the Resolution, i.e. the Chief Executive Officer of Saipem SpA and the Chief Financial Officer and Officer responsible for financial reporting in office at the time of the events. The first hearing before the Milan Court of Appeal has been scheduled for November 13, 2019. On that day, the Milan Court of Appeal postponed the discussion until April 29, 2020.

Ongoing investigations. Public Prosecutor's Office of Milan - 2015 and 2016 Financial Statements. Prospectus of the January 2016 capital increase

On January 22, 2019, the Public Prosecutor's Office of Milan notified Saipem SpA of a "local search warrant and seizure notice of investigation", in relation to the alleged administrative offence pursuant to Articles 5, 6, 7, 8 and 25-*ter* - lett. B), Legislative Decree No. 231/2001, based on the alleged crime of false accounting allegedly committed from April 2016 to April 2017, as well as in relation to the alleged unlawful administrative act pursuant to Articles 5, 6, 7, 8 and 25-*sexies* of Legislative Decree No. 231/2001, based on the alleged crime of manipulation of the market, allegedly committed from October 27, 2015 to April 2017.

At the same time, the Public Prosecutor's Office of Milan notified the Chief Executive Officer of the Company, as well as, for various reasons, two of its managers (including the former Manager responsible for the preparation of financial reporting appointed on June 7, 2016 and in charge up to the May 16, 2019) and a former manager of an investigation concerning the following offences: (i) accounting relating to the 2015 and 2016 financial statements; (ii) manipulation of the market allegedly committed from October 27, 2015 to April 2017; and (iii) false statements in the Prospectus issued with reference to the documentation for the offer of the capital increase in January 2016.

Preliminary investigations are currently still under way.

CERTIFICATION PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE NO. 58/1998 (CONSOLIDATED TAX LAW)

1. The undersigned Stefano Cao and Stefano Cavacini in their capacity as CEO and Manager in charge of preparing the accounting and corporate documents 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 administrative and accounting procedures in place for the preparation of the 2019 consolidated financial statements were:

- adequate given the Groups characteristics, and
- effectively applied during the administrative and accounting preparation of the consolidated financial statements during 2019.

2. The administrative and accounting procedures in place for the preparation of the consolidated financial statements as of December 31, 2019 have been defined and the evaluation of their adequacy has been assessed based on principles and methodologies adopted by Saipem in accordance with the Internal Control - Integrated Framework Model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents an internationally-accepted framework for the internal control system.

3. The undersigned officers also certify that:

3.1 the consolidated financial statements at December 31, 2019:

- a) were prepared in accordance with the applicable International Financial Reporting Standards endorsed by the European Union pursuant to EC Regulation 1606/2002 of the European Parliament and European Council of July 19, 2002;
- b) are consistent with the accounting books and entries;
- c) are suitable to give a true and fair view of the financial position and the results of operations and cash flows of the Parent and the consolidated companies;

3.2 the Directors' Report provides a reliable analysis of business trends and results, including a trend analysis of the Parent and the consolidated companies, as well as a description of the main risks and uncertain situations to which they are exposed.

March 12, 2020

/signed/ Stefano Cao
Stefano Cao
CEO

/signed/ Stefano Cavacini
Stefano Cavacini
Manager in charge of financial reporting of Saipem SpA

INDEPENDENT AUDITORS' REPORT



KPMG S.p.A.
 Revisione e organizzazione contabile
 Via Vittor Pisani, 25
 20124 MILANO MI
 Telefono +39 02 6763.1
 Email it-fmauditaly@kpmg.it
 PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

*To the shareholders of
 Saipem S.p.A.*

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Saipem Group (the "group"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, changes and in equity cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Saipem Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of Saipem S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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 Registro Imprese Milano e
 Codice Fiscale N. 00709600159
 R.E.A. Milano N. 512967
 Partita IVA 00709600159
 VAT number IT00709600159
 Sede legale: Via Vittor Pisani, 25
 20124 Milano MI ITALIA



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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition and measurement of contract assets and liabilities

Notes to the consolidated financial statements: note 4 "Accounting estimates and significant judgements- Revenue, contract assets and contract liabilities" and note 31 "Revenue".

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2019 include contract assets of €1,028 million, contract liabilities of €1,848 million and core business revenue of €9,099 million, which is also related to significant long-term contracts with customers for the performance of large projects that are complex from an engineering, technological and construction point of view.</p> <p>Revenue from those projects is recognised over time, based on their stage of completion and using the cost-to-cost method.</p> <p>Measuring contract assets and liabilities is based on significant estimates about the total contract revenue and costs and the related stage of completion which entail a high level of judgement by the directors. These estimates are affected by many factors, including:</p> <ul style="list-style-type: none"> — claims for additional consideration compared to that contractually agreed; — the projects' long timeframe, size and engineering and operating complexity; — the risk profile of certain countries in which the work is carried out. <p>These estimates, therefore, require a high level of directors' judgement that may significantly affect the recognition of revenue and the measurement of contract assets and liabilities.</p> <p>Accordingly, we believe that the revenue recognition and measurement of contract assets and liabilities are a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — understanding the process for the allocation of revenue from contract with customers and additional consideration, assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls; — selecting a sample of contracts on which we performed, inter alia, the following procedures: <ul style="list-style-type: none"> — analysing contracts with customers in order to check that the main contractual terms have been appropriately considered by management, — analysing the reasonableness of the assumptions underlying the project budgets and forecasts through (i) discussions with group management and the individual contract managers to support the information obtained from historical analyses (ii) analysis of supporting documentation, including any correspondence with customers and suppliers and legal-technical opinions possibly expressed by external experts engaged by group management (iii) analysis of the most significant discrepancies between past years' estimates and actual figures;



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Key audit matter	Audit procedures addressing the key audit matter
	<ul style="list-style-type: none"> — checking the recognition of costs and their allocation to the contracts in progress; — assessing the accuracy of the stage of completion calculation and the consequent recognition of revenue and contract assets and liabilities; — assessing the appropriateness of the disclosures provided in the notes about revenue and contract assets and liabilities.

Provisions for risks and charges and contingent liabilities

Notes to the consolidated financial statements: note 4 “Accounting estimates and significant judgements - Provisions for risks and charges”, note 24 “Provisions for risks and charges” and note 30 “Guarantees, commitments and risks - Legal proceedings”.

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2019 include provisions for risks and charges of €253 million.</p> <p>The parent and certain group companies are involved in a number of legal proceedings and, when a liability is considered to be probable and its amount can be estimated reliably, group management makes the related provisions for risks and charges.</p> <p>The process and methods for assessing the risk arising from the legal proceedings are complex and, by their very nature, entail a high level of judgement by group management, especially the evaluation of the uncertainty surrounding the outcome of the proceedings, the classification as provisions or liabilities and the appropriateness of the disclosures provided in the notes, including about possible liabilities.</p> <p>For the above reasons, we believe that this issue is a key audit matter.</p>	<p>Our audit procedures, which also involved our own specialists, included:</p> <ul style="list-style-type: none"> — understanding the process for the assessment of legal proceedings and assessing the design and implementation of controls and procedures on the operating effectiveness of material controls; — analysing the accounting policies used by the directors to estimate the outcome of significant legal proceedings; — assessing management’s evaluations of the proceedings and their reasonableness by checking the main internal documentation, related reports and any technical appraisals prepared by experts engaged by the directors, as well as through the information obtained from external and internal legal advisors and group management; — exchanging information with the <i>Collegio Sindacale</i>, control and risk committee, supervisory board and internal auditors of the parent; — analysing the events after the reporting date that provide information useful for an assessment of the significant legal proceedings;



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Key audit matter	Audit procedures addressing the key audit matter
	<ul style="list-style-type: none"> — assessing the appropriateness of the disclosures provided in the annual report about significant legal proceedings.

Measurement of property, plant and equipment and intangible assets

Notes to the consolidated financial statements: note 4 "Accounting estimates and significant judgements - Impairment of non-financial assets and Leases", note 15 "Property, plant and equipment" e note 16 "Intangible assets".

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2019 include property, plant and equipment of €4,129 million, intangible assets of €698 million, including goodwill of €667 million, and right-of-use assets of €584 million.</p> <p>The parent's directors have identified seventeen cash-generating units ("CGUs"): Offshore E&C, Onshore E&C, Xsight, Leased FPSO, Onshore drilling and twelve vessels included in the Offshore drilling division.</p> <p>The parent's directors allocated goodwill to the Offshore E&C CGU (€403 million), the Onshore E&C CGU (€231 million) and the Xsight CGU (€33 million).</p> <p>Group management tests the carrying amounts of all CGUs for impairment whenever there are indicators of impairment, and of the CGUs that include goodwill at least annually, by comparing the individual CGU's estimated recoverable amount, calculated by discounting the expected cash flows using the discounted cash flow model, to the net capital employed allocated thereto.</p> <p>The recoverable amounts of those assets is based on assumptions, sometimes complex, that entail a high level of judgement. They are based on the expected cash flows forecast in the 2020-2023 strategic plan approved by the parent's directors, as well as projections for future years.</p> <p>The key assumptions underlying the expected cash flows forecast by the parent's directors relate to the future acquisition of orders, their profitability and the payments that the group will obtain by leasing its fleet</p>	<p>Our audit procedures, which also involved our own specialists, included:</p> <ul style="list-style-type: none"> — understanding the process adopted to prepare the impairment tests approved by the parent's directors; — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the criteria used to identify the CGUs and the assets and liabilities allocated thereto; — analysing the reasonableness of the key assumptions underlying the 2020-2023 strategic plan approved by the parent's directors, mainly through inquiries with the CGUs' managers, analysis of the supporting documentation and comparison of expected orders to the order backlog; — checking the consistency of the forecasts included in the 2020-2023 strategic plan approved by the parent's directors with the data underlying the expected cash flows used for impairment testing; — checking any discrepancies between the previous year forecast and actual figures, in order to check the accuracy of the group management's estimation process; — analysing the reasonableness of the valuation methods and key assumptions used by the group, and especially: <ul style="list-style-type: none"> - the application of the discounted cash flow model,



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Key audit matter	Audit procedures addressing the key audit matter
<p>of vessels, principally included in the Offshore drilling division.</p> <p>For the above reasons, we believe that this issue is a key audit matter.</p>	<ul style="list-style-type: none"> - the criteria and parameters used to calculate the discount rate applied to the projected cash flows and the long-term growth rate, - checking whether the right-of-use assets (IFRS 16) had been appropriately included in the carrying amounts considered and whether the cash flows had been identified consistently for the purposes of determining the recoverable amount; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures provided in the notes about the measurement of property, plant and equipment, intangible assets and right-of-use assets.

Other matters - Comparative figures

The group's 2018 consolidated financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 3 April 2019.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.



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Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 30 April 2019, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2019 to 31 December 2027.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and shareholding structure at 31 December 2019 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and shareholding structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and shareholding structure referred to above are consistent with the group's consolidated financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.



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With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Saipem S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 6 April 2020

KPMG S.p.A.

(signed on the original)

Cristina Quarleri
Director of Audit



Società per Azioni

Share Capital €2,191,384,693 fully paid up

Tax identification number and Milan, Monza-Brianza, Lodi

Companies' Register No. 00825790157

Headquarters: San Donato Milanese (Milan) - Italy

Via Martiri di Cefalonia, 67

Investor Relations

e-mail: investor.relations@saipem.com

Publications

Relazione finanziaria annuale (in Italian)

Annual Report (in English)

Interim Financial Report as of June 30

(in Italian and English)

Making change possible - Sustainability Report 2019

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SAIPEM SpA
Via Martiri di Cefalonia, 67
20097 San Donato Milanese (MI)

SAIPEM.COM