Saipem: results for the first quarter of 2018

San Donato Milanese, April 24, 2018 - The Board of Directors of Saipem S.p.A., chaired by Paolo Andrea Colombo, yesterday approved the Saipem Group's Interim Report at March 31, 2018 (not subject to audit).

Highlights

- Operational performance in line with expectations
- Strong reduction in net financial debt
- Strengthening of the E&C Offshore fleet

Results for the first quarter of 2018:

- Revenues: €1,915 million (€2,263 million in the first quarter of 2017)
- Adjusted EBITDA: €214 million (€256 million in the first quarter of 2017)
- EBITDA: €201 million (€246 million in the first quarter of 2017)
- Adjusted operating profit (EBIT): €100 million (€122 million in the first quarter of 2017)
- Operating profit (EBIT): €87 million (€112 million in the first quarter of 2017)
- Adjusted net profit: €11 million (€54 million in the first quarter of 2017)
- Net profit: loss of €2 million, net of reorganization expenses of €13 million (€47 million in the first quarter of 2017, net of reorganization expenses of €7 million)
- Capital expenditure: €32 million (€83 million in the first quarter of 2017)
- Net debt at March 31, 2018: €1,200 million (€1,296 million at December 31, 2017)
- New contracts: €1,023 million (€509 million in the first quarter of 2017)
- Backlog: €11,500 million (€12,392[1] million at December 31, 2017)

Guidance 2018

Includes the acquisition of the Offshore Engineering & Construction pipelay vessel:

- Revenues: approximately €8 billion
- Adjusted EBITDA: greater than 10% on revenues
- Capital expenditure: approximately €0.5 billion
- Net debt: approximately €1.3 billion

[1] *The €29 million increase in the backlog from €12,363 million at December 31, 2017 is due to the application of the accounting standard IFRS 15, specifically: €16 million are related to contracts in the Offshore Drilling sector, €8 million to contracts in the Onshore E&C sector and €5 million to contracts in the Onshore Drilling sector.*

Stefano Cao, Saipem CEO, commented:

"The results for the first quarter of 2018 confirm the solid operational and managerial performance previously demonstrated during 2017 and highlight a further reduction of net debt compared to the level recorded at year-end 2017.
Furthermore, last March, with a view to further strengthening Saipem's capabilities in the subsea pipelaying sector and completing the range of services offered to the subsea market, the Company finalized the agreement for the purchase of the ship Constellation, a latest generation vessel equipped with cutting edge technology".

Financial highlights

(million euro)

	Q1 2017	Q4 2017	Q1 2018	Q1 2018 vs Q1 2017 (%)
Revenues	2,263	2,126	1,915	(15.4)
Adjusted EBITDA	256	169	214	(16.4)
Adjusted operating profit	122	40	100	(18.0)
Operating profit	112	(131)	87	(22.3)
Adjusted net profit	54	(105)	11	(79.6)
Net profit	47	(271)	(2)	ns
Adjusted Cash flow (adjusted net profit + depreciation and amortization)	188	24	125	(33.5)
Free Cash flow	(161)	94	110	ns
Net financial position	1,605	1,296	1,200	(25.2)
Capital expenditure	83	64	32	(61.4)
New contracts	509	2,682	1,023	ns

Revenues and associated profit levels are not consistent over time, as they are influenced not only by market performance but also by climatic conditions and individual project schedules in the Engineering and Construction sector, and by contract expiry and renegotiation timing in the Drilling sector.

Reorganization: impact on reporting

The Floaters business line has been included in Onshore Engineering & Construction.
The XSIGHT division has not been reported separately as it is still in its start-up phase.

Business update for 2018

Revenues in the first quarter of 2018 amounted to €1,915 million, down (15.4%) from the first quarter of 2017, due to a contraction in the Offshore and Onshore E&C sectors, as well as in the Offshore Drilling sector.

Adjusted EBITDA in the first quarter of 2018 amounted to €214 million (€256 million in the first quarter of 2017): this reduction is attributable, in the Offshore Drilling sector, to fewer contracts for the fleet, and in the Onshore E&C sector, to the effect of the high margins recorded in the Floater Business line in the first quarter of 2017.

Adjusted net profit in the first quarter of 2018 amounted to €11 million, down from €54 million in the first quarter of 2017 and was penalized by a contraction in operating profit and a higher tax-rate.

Net result in the first quarter of 2018 amounted to a loss of €2 million (profit of €47 million in the first quarter of 2017), unlike adjusted net profit, was reduced by reorganization expenses of €13 million (€7 million in the first quarter of 2017).

Capital expenditure in the first quarter of 2018, relating mainly to the maintenance and upgrading of the existing asset base, amounted to €32 million (€83 million in the first quarter of 2017), broken down as follows:

- €11 million in Offshore Engineering & Construction;
- €3 million in Onshore Engineering & Construction;
- €11 million in Offshore Drilling;
- €7 million in Onshore Drilling.

The acquisition of the Offshore Engineering & Construction vessel will be finalized in the second quarter of 2018.

Net debt at March 31, 2018 amounted to €1,200 million, a €96 million reduction compared to December 31, 2017 (€1,296 million). In the first quarter, the debt with Sonatrach, relating to the LPG arbitration, was settled; nevertheless, the cash generated in the period, the containment of capital expenditure and control over working capital enabled a reduction in net debt. The outlay for the Offshore Engineering & Construction vessel will be accounted for in the second quarter of 2018.

Backlog

In the first quarter of 2018, Saipem was awarded new contracts amounting to €1,023 million (€509 million in the first quarter of 2017). The backlog at March 31, 2018 amounted to €11,500 million (€4,040 million in Offshore Engineering & Construction, €5,846 million in Onshore Engineering & Construction, €856 million in Offshore Drilling and €758 in Onshore Drilling), of which €4,799 million is to be realized in 2018.

EBIT adjusted – EBIT reported reconciliation

(million euro)

	Offshore E&C	Onshore E&C	Offshore Drilling	Onshore Drilling	Total
Adjusted EBIT	**55**	**16**	**25**	**4**	**100**
Reorganization expenses	5	5	1	2	13
Total write-downs	(5)	(5)	(1)	(2)	(13)
Reported EBIT	**50**	**11**	**24**	**2**	**87**

Management outlook for 2018

Indications provided in the press release dated March 5, 2018 are confirmed. The only changes relate to the capital expenditure and net debt guidance, due to the acquisition of the reeling rigid and flexible pipelay vessel.

Recently-issued accounting standards: 2017 restated data

With the issue, on September 22, 2016 and October 31, 2017 respectively, of European Commission Regulations no. 2016/1905 and 2017/1987, IFRS 15 "Revenue from Contracts with Customers" (hereinafter IFRS 15) was approved as well as the document "Clarifications to IFRS 15 Revenue from Contracts with Customers", identifying the criteria to be used in the calculation and evaluation of revenues from contracts with customers (including construction contracts).
Specifically, IFRS 15 provides that revenues are recognized based on the following 5 steps: (i) Identify the contract(s) with a customer; (ii) Identify the performance obligations in the contract (i.e. the goods or services that have been promised to the customer); (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract based on the standalone selling price of each item of goods or service; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Furthermore, IFRS 15 provides that the financial statements include information relating to the nature, amount, timing and uncertainty of receivables and related cash-flows.
As already illustrated in the preparation of the Annual Report, the areas involved concern mainly:

(i) Identification of possible distinct performance obligation;
(ii) Timing of revenues and calculation of the transaction price;
(iii) Methods and timing of recognition of contractual variations;
(iv) Recognition of certain costs for which the new principle requires capitalization: i.e. pre-engineering costs and costs for the preparation of vessels.

In the first application of the new provisions, Saipem took advantage of the possibility of recognizing the effect connected to the retroactive restatement of the values in shareholders' equity at January 1, 2018, with regard to the entries existing on that date, without restating the previous financial years under comparison. In particular, on the basis of the information available, the adoption of IFRS 15 involves, net of the related tax effect, a reduction in net assets of €20 million, deriving from the different performance obligations of certain engineering and construction projects and from a different assessment of the performance obligations of drilling services.
With Regulation no. 2016/2067 issued by the European Commission on November 22, 2016, the full version of IFRS 9 "Financial instruments" (hereinafter IFRS 9) was approved. In particular, the new provisions of IFRS 9: (i) modify the classification and measurement model for financial assets based on the characteristics of the financial instrument and the business model adopted by the company; (ii) introduce a new method of writing down financial assets, which takes into account expected losses (so-called expected credit loss); and (iii) amend the provisions on hedge accounting. The following are the impacts with reference to the three areas of intervention affected by the new provisions:

(i) classification and evaluation: the new method of classification and valuation of financial assets representing debt instruments does not entail significant changes.

(ii) impairment: the management model adopted by the Group envisages the simplified approach for trade receivables that do not contain a significant financial component, which requires the valuation of the provision to cover losses for an amount equal to the expected losses over the entire life of the receivable. This approach uses the probability of default of customers based on observable market data and on assessments collected by info-providers for the quantification of expected losses. Given the specific nature of the type of business in which Saipem operates, mainly long-term contracts with continuously updated assessments of the entire life of the project and with a narrow range of customers consisting mostly of Major Oil Companies, provisions for bad debts are made after a careful analysis of the individual overdue receivables that actually already includes a forward view of the project.

(iii) hedge accounting: the management model currently adopted by the Group is to be considered consistent with the new provisions introduced by IFRS 9 in terms of hedge accounting.

In the first application, Saipem took advantage of the possibility of recognizing the effect of adopting IFRS9 in terms of classification and evaluation, including the impairment of financial assets, in shareholders' equity at January 1, 2018, without restating the previous financial years under comparison.
In particular, based on the information available, the adoption of IFRS 9 entails, net of the related tax effect, a decrease in shareholders' equity of €28 million related to the greater write-downs in financial assets due to the adoption of the expected credit loss model.

For details, please refer to the section "Summary of the effects deriving from the application of IFRS 9 and IFRS 15: Reclassified Consolidated Balance Sheet".

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This press release should be read in conjunction with the statutory and consolidated financial statements at December 31, 2017 and the condensed interim consolidated financial statements at June 30, 2017 of Saipem S.p.A., which are already available on the Company's website (www.saipem.com) under the section "Investor Relations – Financial Information".

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Saipem's Planning, Administration and Control Officer, Mr. Mariano Avanzi, in his capacity as manager responsible for the preparation of the Company's financial reports, certifies, pursuant to article 154-bis paragraph 2 of Legislative Decree no. 58/1998, that accounting data corresponds to the Company's documents and accounting books and entries.

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

Conference call and webcast

The results contained in this press release will be illustrated in a conference call and webcast which will be hosted by CEO Stefano Cao today at 9.00 am CEST (8.00 am GMT, 3.00 am EDT, midnight PDT). The conference call can be followed on Saipem's website (www.saipem.com) by clicking on the "WEBCAST 2017 RESULTS AND STRATEGY UPDATE" on the home page, or through the following URL: https://edge.media-server.com/m6/p/om2vpnzp

During the conference call and webcast, a presentation will be given which will be available for download from the webcast window and from the "Investor Relations/Financial Information" section on Saipem's website (www.saipem.com) around 30 minutes before the scheduled start time. This presentation will also be available for download from the authorized storage device "eMarketSTORAGE" (www.emarketstorage.com) and Borsa Italiana S.p.A (www.borsaitaliana.it).

Saipem is one of the world leaders in drilling services, as well as in the engineering, procurement, construction and installation of pipelines and complex projects, onshore and offshore, in the oil & gas market. The company has distinctive competences in operations in harsh environments, remote areas and deep-water. Saipem provides a full range of services with "EPC" and "EPCI" contracts (on a "turn- key" basis) and has distinctive capabilities and unique assets with a high technological content.

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Analysis by business sector – Adjusted results:

Offshore Engineering & Construction

(million euro)

	Q1 2017	Q4 2017	Q1 2018	Q1 2018 vs Q1 2017 (%)
Revenues	975	646	803	(17.6)
Expenses	(870)	(490)	(700)	(19.5)
Adjusted EBITDA	105	156	103	(1.9)
Depreciation	(44)	(51)	(48)	9.1
Adjusted operating profit	61	105	55	(9.8)
Adjusted EBITDA %	10.8	24.1	12.8	
Adjusted EBIT %	6.3	16.3	6.8	
New contracts	320	674	199	

Backlog at March 31, 2018: €4,040 million, of which €2,139 million to be realized in 2018.

- Revenues for the first quarter of 2018 amounted to €803 million, down by 17.6% compared to the first quarter of 2017, due mainly to lower volumes recorded in Kazakhstan and Central South America, which were partly offset by higher volumes registered in the Middle East.

- Adjusted EBITDA for the first quarter of 2018 amounted to €103 million, equal to 12.8% of revenues, compared to €105 million, equal to 10.8% of revenues in the first quarter of 2017. This percentage increase was due to strong operational efficiency.

Onshore Engineering & Construction

(million euro)

	Q1 2017	Q4 2017	Q1 2018	Q1 2018 vs Q1 2017 (%)
Revenues	1,002	1,219	878	(12.4)
Expenses	(958)	(1,314)	(852)	(11.1)
Adjusted EBITDA	44	(95)	26	(40.9)
Depreciation	(27)	(13)	(10)	(63.0)
Adjusted operating profit	17	(108)	16	(5.9)
Adjusted EBITDA %	4.4	-7.8	3.0	
Adjusted EBIT %	1.7	-8.9	1.8	
New contracts	117	1,897	778	

Backlog at March 31, 2018: €5,846 million, of which €2,037 million to be realized in 2018.

- Revenues for the first quarter of 2018 amounted to €878 million, down by 12.4% compared to the first quarter of 2017, due mainly to lower volumes recorded in the Middle and Far East and in West Africa, partly offset by greater volumes recorded in Central South America and Azerbaijan.

- Adjusted EBITDA for the first quarter of 2018 amounted to €26 million, equal to 3.0% of revenues, compared to €44 million, equal to 4.4% of revenues in the first quarter of 2017. This is due mainly to to the effect of the high margins recorded in the Floater Business line in the first quarter of 2017.

- The most significant contract awarded in the first quarter of 2018 concerns a contract on behalf of Duqm Refinery and Petrochemical Industries Company LLC, comprising engineering, procurement, construction and commissioning under Package 3 “Offsite Facilities” in the framework of the development of the Duqm Refinery situated near the coast in the north east of Oman.

Offshore Drilling

(million euro)

	Q1 2017	Q4 2017	Q1 2018	Q1 2018 vs Q1 2017 (%)
Revenues	162	137	116	(28.4)
Expenses	(86)	(56)	(63)	(26.7)
Adjusted EBITDA	76	81	53	(30.3)
Depreciation	(30)	(31)	(28)	(6.7)
Adjusted operating profit	46	50	25	(45.7)
Adjusted EBITDA %	46.9	59.1	45.7	
Adjusted EBIT %	28.4	36.5	21.6	
New contracts	34	48	25	

Backlog at March 31, 2018: €856 million, of which €304 million to be realized in 2018.

- Revenues for the first quarter of 2018 amounted to €116 million, a 28.4% decrease compared to the first quarter of 2017, mainly attributable to the semi-submersible rigs Scarabeo 5 and Scarabeo 8 having been idle in the first quarter of 2018; this decrease was partly offset by greater revenues generated by the full scale operations of the semi-submersible rig Scarabeo 9, which had been undergoing class reinstatement works in the first quarter of 2017.

- Adjusted EBITDA for the first quarter of 2018 amounted to €53 million, with a margin on revenues of 45.7%, compared to €76 million in the first quarter of 2017, with a margin on revenues of 46.7%. The 1% decrease in margins is due to the lesser contribution from idle vessels.

Vessel utilization in the first quarter of 2018 and the impact of programmed maintenance and idle days in 2018 are as follows:

Vessel	***Q1 2018***		***Year 2018***
	Under contract	***Non-operating***	***Non-operating***
	(days)		***(days)***
Semi-submersible rig Scarabeo 5	-	90 (b)	365 (b)
Semi-submersible rig Scarabeo 7	90	-	-
Semi-submersible rig Scarabeo 8	-	90 (b)	151 (b)
Semi-submersible rig Scarabeo 9	90	-	-
Drillship Saipem 10000	90	-	-
Drillship Saipem 12000	90	-	165 (a+b)
Jack-up Perro Negro 2	-	90 (b)	181 (b)
Jack-up Perro Negro 4	90	-	-
Jack-up Perro Negro 5	90	-	–
Jack-up Perro Negro 7	90	–	100 (a)
Jack-up Perro Negro 8	90	-	-
Tender Assisted Drilling Barge	90	-	-

(a) = the vessel underwent/will undergo class reinstatement works and/or preparation works for a new contract.
(b) = the vessel was not/will not be under contract

Onshore Drilling:

(million euro)

	Q1 2017	Q4 2017	Q1 2018	Q1 2018 vs Q1 2017 (%)
Revenues	124	124	118	(4.8)
Expenses	(93)	(97)	(86)	(7.5)
Adjusted EBITDA	31	27	32	3.2
Depreciation	(33)	(34)	(28)	(15.2)
Adjusted operating profit	(2)	(7)	4	ns
Adjusted EBITDA %	25.0	21.8	27.1	
Adjusted EBIT %	-1.6	-5.6	3.4	
New contracts	38	63	21	

Backlog at March 31, 2018: €758 million, of which €319 million to be realized in 2018.

- Revenues for the first quarter of 2018 amounted to €118 million, a 4.8% decrease on the first quarter of 2017.
- Adjusted EBITDA for the first quarter of 2018 amounted to €32 million, equal to 27.1% of revenues, a slight increase on €31 million, equal to 25.0% of revenues recorded in the first quarter of 2017.

Average utilization of rigs in the first quarter of 2018 was 68.6% (61.8% in the first quarter of 2017). As of March 31, 2018, the Company owned 84 rigs, located as follows: 28 in Saudi Arabia, 19 in Venezuela, 17 in Peru, 4 in Bolivia, 4 in Ecuador, 3 in Kazakhstan, 2 in Colombia, 2 in Kuwait, 2 in Argentina, 1 in Italy, 1 in Morocco and 1 in Rumania.
In addition, 1 third-party rig was used in the Congo and 1 third-party rig in Peru.

Attachments:

- reclassified consolidated balance sheet, reclassified consolidated income statements by nature and function of expenses and reclassified statement of cash flow.

RECLASSIFIED CONSOLIDATED BALANCE SHEET

(million euro)

	January 1, 2018 restated	March 31, 2018
Net tangible assets	4,581	4,478
Intangible assets	753	752
	5,334	5,230
Investments	141	133
Non-current assets	**5,475**	**5,363**
Net current assets	**571 ***	**592**
Provision for employee benefits	**(199)**	**(203)**
CAPITAL EMPLOYED, NET	**5,847**	**5,752**
Shareholder's equity	**4,510 ***	**4,515**
Non-controlling interests	**41**	**37**
Net debt	**1,296**	**1,200**
FUNDING	**5,847**	**5,752**
Leverage (net borrowings/shareholders' equity including minority interest)	**0.28**	**0.26**
SHARES ISSUED AND OUTSTANDING	**1,010,977,439**	**1,010,977,439**

* data were restated following new accounting standards IFRS 9 and IFRS 15 having come into force

CONSOLIDATED INCOME STATEMENT RECLASSIFIED BY NATURE OF EXPENSES

(million euro)

Q4 2017		Q1 2017	Q1 2018
2,126	Net sales from operations	2,263	1,915
18	Other income and revenues	-	1
(1,633)	Purchases, services and other costs	(1,592)	(1,354)
-	Net reversals (impairments) of trade and other receivables	-	1
(386)	Payroll and related costs	(425)	(362)
125	**GROSS OPERATING PROFIT**	**246**	**201**
(256)	Depreciation, amortization and impairment	(134)	(114)
(131)	**OPERATING PROFIT**	**112**	**87**
(53)	Finance expense	(41)	(43)
(11)	Income from investments	1	0
(195)	**PROFIT BEFORE TAXES**	**72**	**44**
(66)	Income taxes	(21)	(40)
(261)	**PROFIT BEFORE NON-CONTROLLING INTERESTS**	**51**	**4**
(10)	Net profit attributable to non-controlling interests	(4)	(6)
(271)	**NET PROFIT**	**47**	**(2)**
(15)	**CASH FLOW (net result + depreciation and amortization)**	181	112

CONSOLIDATED INCOME STATEMENT RECLASSIFIED BY FUNCTION OF EXPENSES

(million euro)

Q4 2017		Q1 2017	Q1 2018
2,126	Net sales from operations	2,263	1,915
(2,099)	Production costs	(2,018)	(1,675)
(64)	Idle costs	(49)	(62)
(35)	Selling expenses	(29)	(35)
(12)	Research and development expenses	(5)	(6)
(7)	Other operating income (expenses), net	(3)	(5)
(91)	**CONTRIBUTION FROM OPERATIONS**	**159**	**132**
(40)	General and administrative expenses	(47)	(45)
(131)	**OPERATING PROFIT**	**112**	**87**
(53)	Finance expense	(41)	(43)
(11)	Income from investments	1	-
(195)	**PROFIT BEFORE TAXES**	**72**	**44**
(66)	Income taxes	(21)	(40)
(261)	**PROFIT BEFORE NON-CONTROLLING INTERESTS**	**51**	**4**
(10)	Net profit attributable to non-controlling interests	(4)	(6)
(271)	**NET PROFIT**	**47**	**(2)**
(15)	**CASH FLOW (net profit + depreciation and amortization)**	181	112

RECLASSIFIED CASH FLOW STATEMENT

(million euro)

Q4 2017		Q1 2017	Q1 2018
(271)	Net profit (loss) for the period	47	(2)
10	Non-controlling interests	4	6
	Adjustments to reconcile cash generated from operating profit before changes in working capital:		
329	Depreciation, amortization and other non-monetary items	105	96
83	Changes in working capital related to operations	(239)	42
151	**Net cash flow from operations**	**(83)**	**142**
(64)	Capital expenditure	(83)	(32)
(2)	Investments and purchase of consolidated subsidiaries and businesses		
9	Disposals	5	-
94	**Free cash flow**	**(161)**	**110**
–	Buy-back of treasury shares/Exercise of stock options	-	-
–	Share capital increase net of expenses	-	-
–	Cash flow from capital and reserves	-	(15)
(35)	Exchange differences on net borrowings and other changes	6	1
59	**Change in net borrowings**	**(155)**	**96**
1,355	**Net borrowings at beginning of period**	**1,450**	**1,296**
1,296	**Net borrowings at end of period**	**1,605**	**1,200**

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

Reclassified Consolidated Balance Sheet

	December 31, 2017 - published	Effect of IFRS 9 application	Effect of IFRS 15 application	January 1, 2018
Net tangible assets	4,581			4,581
Intangible assets	753			753
	5,334			5,334
Investments	141			141
Non-current assets	**5,475**			**5,475**
Net current assets	**619**	**(28)**	**(20)**	**571**
Provision for employee benefits	**(199)**			**(199)**
CAPITAL EMPLOYED, NET	**5,895**	**(28)**	**(20)**	**5,847**
Shareholder's equity	**4,558**	**(28)**	**(20)**	**4,510**
Non-controlling interests	**41**			**41**
Net debt	**1,296**			**1,296**
FUNDING	**5,895**	**(28)**	**(20)**	**5,847**
Leverage (net borrowings/shareholders' equity including minority interest)	**0.28**			**0.26**
SHARES ISSUED AND OUTSTANDING	**1,010,977,439**			**1,010,977,439**