Saipem

Third quarter report

at 30th September

2005

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2005

contents

Approved by the Board of Directors
at the meeting of 7th November 2005

Saipem is a subsidiary of Eni SpA

Quarterly reports are not subject to audit.

Economic and financial data

(million €)

	Third Quarter			First nine months		
	2004	**2005**	**Var.%**	**2004**	**2005**	**Var.%**
Revenues	1,158	1,081	(6.6)	3,069	3,200	4.3
Contribution from operations	109	118	8.3	315	332	5.4
Operating income	80	89	11.3	228	243	6.6
Capital expenditure	46	100	117.4	138	241	74.6

	31th December 2004	**1st January 2005(*)**	**30th September 2005**
Net debt:			
- medium/long term	487	495	586
- short term	379	379	460
Total	**866**	**874**	**1,046**

(*) Figures include adjustments resulting from the application of IAS 32 and IAS 39.

Results from operations

	Third Quarter			First nine months		
	2004	**2005**	**Var.%**	**2004**	**2005**	**Var.%**
Offshore Construction						
- subsea pipeline laid (km)	399	153	(61.7)	1,058	840	(20.6)
- structures installed (tons)	27,460	52,270	90.3	105,480	124,559	18.1
Offshore Drilling						
- metres drilled	39,363	36,217	(8.0)	99,063	84,240	(15.0)
- wells drilled	13	19	46.2	48	43	(10.4)
Leased FPSO						
- FPSO vessels' utilisation (days)	92	92	–	274	273	(0.4)
Onshore Construction						
- pipeline laid (km)	126	434	244.4	199	848	326.1
- structures installed (tons)	2,242	1,401	(37.5)	11,809	4,986	(57.8)
Onshore Drilling						
- metres drilled	148,617	141,181	(5.0)	342,229	411,931	20.4
- wells drilled	54	53	(1.9)	105	159	51.4
estimated average equipment utilisation (%)	76	90	18.4	76	91	19.7

Revenues by business sector

(million €)

	Third Quarter			First nine months		
	2004	2005	Var.%	2004	2005	Var.%
Offshore Construction	732	615	(16.0)	1,907	1,872	(1.8)
Offshore Drilling	73	73	–	213	213	–
Leased FPSO	13	7	(46.2)	37	20	(45.9)
Onshore Construction	174	186	6.9	452	518	14.6
Onshore Drilling	39	52	33.3	117	145	23.9
Liquefied Natural Gas	51	73	43.1	144	206	43.1
Maintenance Modification and Operation	76	75	(1.3)	199	226	13.6
Total	**1,158**	**1,081**	**(6.6)**	**3,069**	**3,200**	**4.3**

Revenues by geographical area

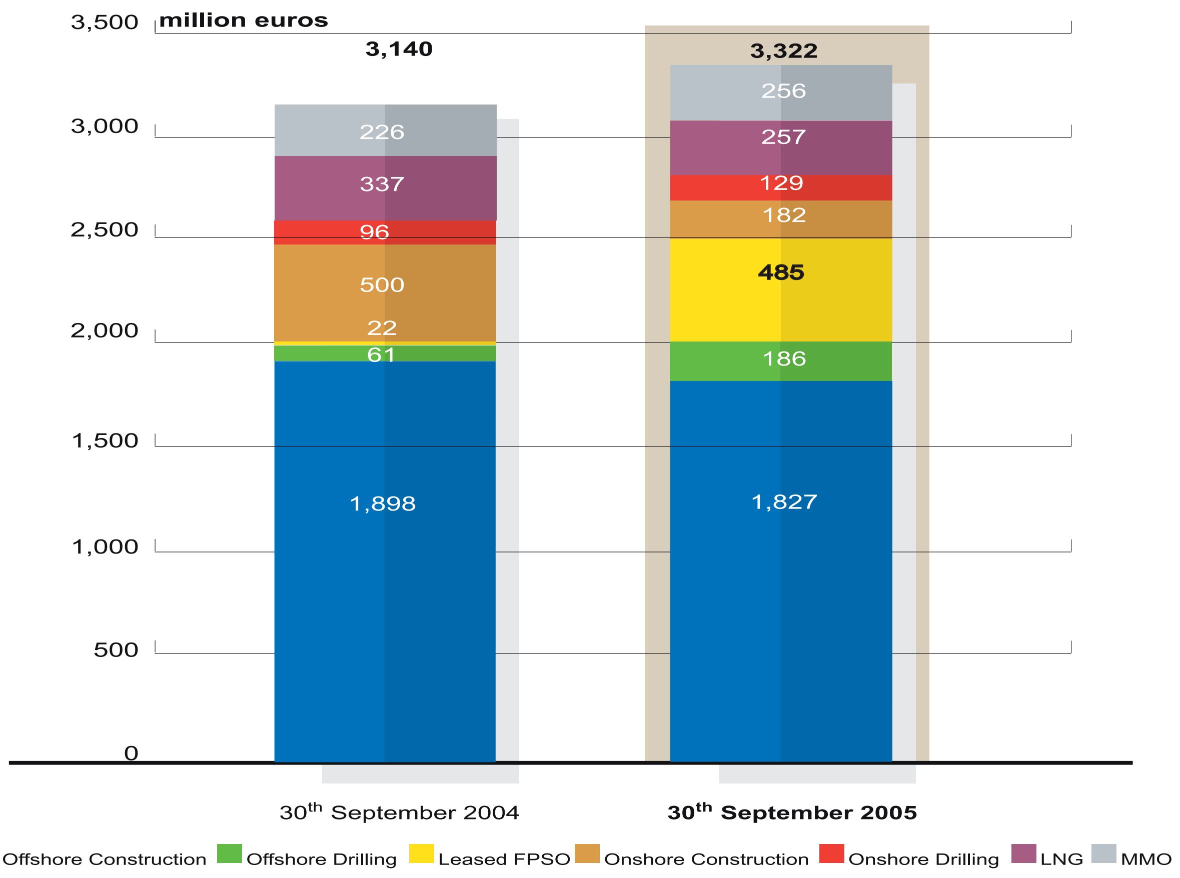
(million €)

	Third Quarter		First nine months	
Geographical area (*)	**2004**	**2005**	**2004**	**2005**
Italy	39	45	96	138
Rest of Europe	128	229	366	585
C.S.I.	199	188	408	490
Rest of Asia	159	133	409	477
North Africa	210	105	546	361
West Africa	384	333	1,124	1,023
Americas	39	48	120	126
Total	**1,158**	**1,081**	**3,069**	**3,200**

(*) Final destination of services

New contracts awarded to the Saipem Group				(million €)
	Third Quarter		First nine months	
	2004	2005	2004	2005
Saipem SpA	199	72	451	249
Group companies	1,007	1,008	2,689	3,073
Total	**1,206**	**1,080**	**3,140**	**3,322**
Offshore Construction	776	322	1,898	1,827
Offshore Drilling	21	47	61	186
Leased FPSO	13	482	22	485
Onshore Construction	181	38	500	182
Onshore Drilling	59	50	96	129
Liquefied Natural Gas	124	74	337	257
Maintenance Modification and Operation	32	67	226	256
Total	**1,206**	**1,080**	**3,140**	**3,322**

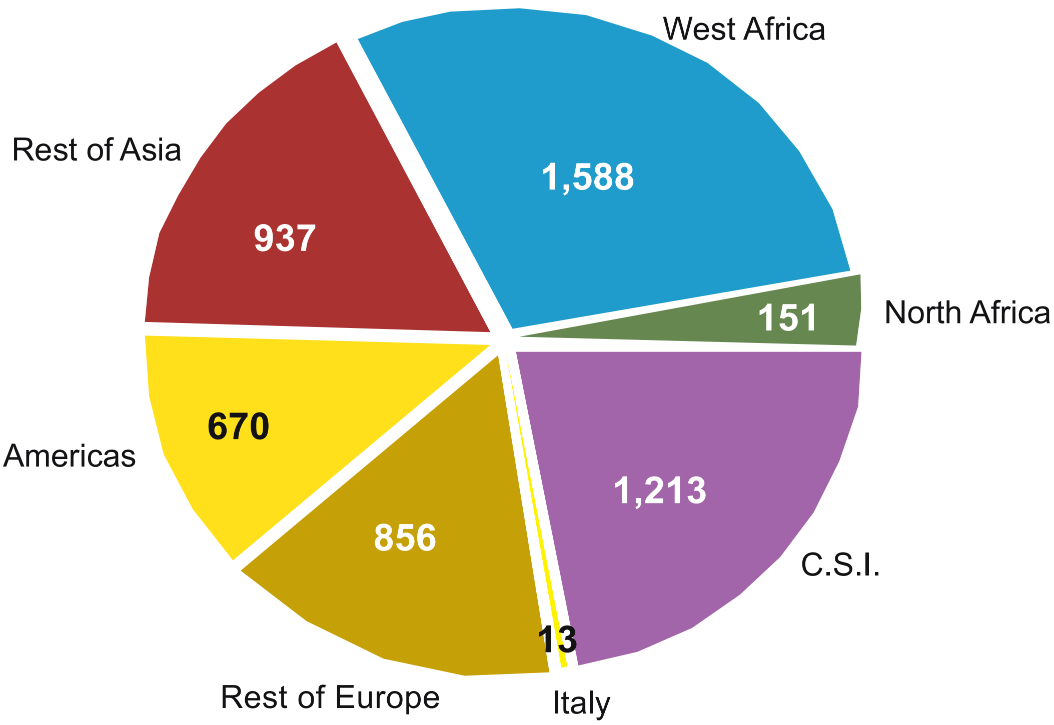
New contracts awarded



Order backlog		(million €)
	31th December 2004	30th September 2005
Offshore Construction	3,303	3,258
Offshore Drilling	317	290
Leased FPSO	117	582
Onshore Construction	763	427
Onshore Drilling	296	280
Liquefied Natural Gas	447	498
Maintenance Modification and Operation	63	93
Total	**5,306**	**5,428**

Order backlog by geographical area		(million €)
	31th December 2004	30th September 2005
Italy	1	13
Rest of Europe	1,049	856
C.S.I.	1,521	1,213
Rest of Asia	918	937
North Africa	341	151
West Africa	1,349	1,588
Americas	127	670
Total	**5,306**	**5,428**

Order backlog by geographical area at 30th September 2005



Introduction of the international financial reporting standards (IFRS)

As of 1st January 2005, all European listed companies are required to produce their Consolidated Financial Statements in compliance with the new International Financial Reporting Standards (IFRS).
From the transition date of the new principles (1st January 2004), i.e. the beginning of the
first comparative period, the balance sheet must:

- recognise all and only the assets and liabilities defined as such by the new accounting standards;
- evaluate assets and liabilities retrospectively as if the new accounting standards had been originally applied;
- reclassify items in the financial statements in accordance with IFRS.

The effect of the IFRS adjustments to the opening balances of assets and liabilities is reflected in the shareholders equity and takes into account the fiscal effect in the caption "deferred tax assets/liabilities".
With regard to IAS 32 and 39, pertaining to the evaluation and recognition of financial instruments including hedging contracts, Saipem opted to introduce them as of 1st January 2005, as authorised by IFRS 1 "First introduction of International Financial Reporting Standards", and therefore postpone their restatement.
Saipem has also opted, in compliance with IFRS1, not to not to restate business combinations and to assume at zero the cumulated translation differences of financial statements in currencies other than the euro of company shareholdings.

In compliance with the introduction of IFRS 1, the following are stated below: (i) the balance sheet for 2003 restated under IFRS; (ii) the income statement for 2004 restated under IFRS; (iii) the balance sheet for 2004 restated under IFRS; (iv) the reconciliations between the shareholders' equity, inclusive of minority interest, for 2003 and 2004 reported under Italian GAAP and shareholders' equity under IFRS; (v) the reconciliation between the Group's net income for 2004 reported under Italian GAAP and IFRS; (vi) the restatement of the cash flow statement at 31st December 2004.

The restatement/reconciliation tables have been prepared in view of the IFRS introduction as adopted by the European Commission. Given this specific aim, the information provided in this section is not intended to substitute the wider comparative information that will be provided in the first complete financial statements under IFRS.

The balances of reconciliations required by IFRS 1 have been subject to a full audit by PricewaterhouseCoopers.

IFRS applied are detailed under the section "Basis of preparation". Specifically, data contained in the reconciliation tables may be adjusted in compliance with future directives as issued by the European Commission or new guidelines issued by IASB and/or IFRIC.

Balance Sheet at 31st December 2003 and 2004

The tables below detail the restatement of the various balance sheet captions at 31st December 2003 and 2004 under IFRS, previously stated under Italian accounting principles (hereafter also referred to as Italian GAAP):

Balance Sheet (million €)

	31st December 2003			31st December 2004		
	Previously used accounting principles	Effects of IFRS introduction	IFRS	Previously used accounting principles	Effects of IFRS introduction	IFRS
Net tangible fixed assets	1,694	26	1,720	1,688	24	1,712
Net intangible fixed assets	851	(23)	828	805	30	835
Financial investments	26	–	26	17	–	17
Net working capital	(79)	–	(79)	5	(3)	2
Provisions for contingencies	(117)	3	(114)	(118)	(4)	(122)
Employee termination indemnities	(31)	–	(31)	(34)	1	(33)
Minority interest in net equity	(23)	–	(23)	(9)	–	(9)
Net debt	(953)	–	(953)	(866)	–	(866)
Net equity	**1,368**	**6**	**1,374**	**1,488**	**48**	**1,536**

At 31st December 2004, the effects of IFRS introduction have resulted in a 48 million euro increase in net equity.

Reconciliation of the Shareholders' equity at 31st December 2003 and 2004

The following table details the reconciliation between the shareholders' equity, inclusive of minority interest, at 31st December 2003 and 31st December 2004 reported under Italian GAAP and shareholders' equity under IFRS:

(million €)

Ref.[1]		31st December 2003	31st December 2004
	Net equity under Italian GAAP	**1,368**	**1,488**
1	Capitalisation of periodic maintenance	64	74
1	Depreciation on periodic maintenance provision	(38)	(50)
1	Write-off of periodic maintenance provision	16	2
2	Research and development costs that cannot be capitalised	(1)	(1)
3	Losses on employees' benefit plans	(15)	(11)
3	Effect on taxation	1	–
3	Evaluation of actualisation of employee termination benefits	–	1
4	Impairment of Moss Maritime's goodwill	(22)	(22)
4	Goodwill value restore	–	53
5	Reclassified fair value of stock grant plans - future years	(1)	(3)
5	Reclassified stock grant fund	2	5
	Total effect of IFRS introduction	**6**	**48**
	Net equity under IFRS	**1,374**	**1,536**

1 The number refers to the caption in the section entitled "Nature of main adjustments".

Income statement 2004

The restatement of the various 2004 income statement captions under IFRS is as follows:

Income Statement			(million €)
	Previously used accounting principles	**Effects of IFRS introduction**	**IFRS**
		Year 2004	
Revenues	4,306	–	4,306
Operating costs	(3,776)	(3)	(3,779)
Gross operating income	**530**	**(3)**	**527**
Amortisation and depreciation	(240)	41	(199)
Operating income	**290**	**38**	**328**
Financial income/(expenses)	(23)	–	(23)
Income before income taxes	**267**	**38**	**305**
Income taxes	(67)	–	(67)
Minority interest	(3)	–	(3)
Net income	**197**	**38**	**235**

The effects of the introduction of the IFRS for the year 2004 have resulted in an increase in net income of 38 million euros.

Reconciliation of the Group's net income for 2004

The reconciliation between the Group's net income for 2004 reported under Italian GAAP and IFRS is as follows:

(million €)

Ref.[2]		**Year 2004**
	Net income under Italian GAAP	**197**
1	Periodic maintenance provision value restore	(14)
1	Write-off of periodic maintenance costs	10
1	Amortisation of periodic maintenance	(12)
3	Fair value gains on employees' benefit plans	1
4	Adjustment to goodwill amortisation	53
	Total effect of IFRS introduction	**38**
	Net income under IFRS	**235**

2 The number refers to the caption in the section entitled "Nature of main adjustments".

Reclassified cash flow statement at 31st December 2004

The following table details the IFRS restatement of the reclassified cash flow statement at 31st December 2004 compiled in compliance with Italian accounting principles (hereafter Italian GAAP):

Cash flow statement			(million €)
	Previously used accounting principles	Effects of IFRS introduction	IFRS
		Year 2004	
Net income	200	38	238
Amortisation and other non monetary components	318	(41)	277
Variation in net current assets and other monetary components	(158)	13	(145)
Investments and disposals	(184)	(10)	(194)
Variation in financial debt	(33)		(33)
Buy-back of treasury shares	(10)		(10)
Cash flow	(65)		(65)
Other variations	19		19
Variation in net debt	**87**	**–**	**87**

Nature of main adjustments

The following is a description of the main changes introduced in the 2003 balance sheet, whose effects are reflected in the 2004 income statement and balance sheet.

1) Different recognition of provisions for contingencies (ref. IAS 37 - Provisions, contingent liabilities and contingent assets; IAS 16 - Property, plant and equipment)

Under Italian GAAP, the reserve for contingencies concerns costs and charges of a determined nature, whose existence is certain or probable, but whose amounts or occurrence are not determinable at the period-end. The reserve for contingencies is stated on an undiscounted basis.

Under IFRS, a provision to the reserve for contingencies is made only if there is a current obligation considered “probable” as a consequence of events occurred before period-end deriving from legal or contractual obligations or from behaviours or announcements of the company that determine valid expectations in third parties (implicit obligations), provided that the amount of the liability can be reasonably determined. When the financial effect of time is significant and the date of the expense to clear the relevant obligation can be reasonably determined, the estimated cost is discounted on the basis of the risk-free rate of interest and adjusted for the Company’s credit cost.

As for the reserve for periodic maintenance, under IFRS these costs are capitalized when incurred as a separate component of the asset and are depreciated according to their useful lives, as they do not represent a current obligation.

The application of IFRS determined an increase in shareholder equity at 31st December 2004 of 26 million euros and a decrease in 2004 net income of 16 million euros.

2) Adjustments to intangible assets (ref. IAS 38 – Intangible assets)

Under Italian GAAP, costs for software development can be capitalized under certain circumstances. IFRS pose more stringent conditions for their capitalization.
The application of IFRS determined a decrease in shareholders equity at 31st December 2004 earnings of 1 million euros.

3) Employee benefits (ref. IAS 19 – Employee benefits)

Under Italian GAAP, employee termination benefits are accrued during the period of employment of employees, in accordance with the law and applicable collective labour contracts.
Under IFRS, employee termination benefits (e.g. pension payments, life insurance payments, medical assistance after retirement, etc.) are defined on the basis of post-employment benefit plans which due to their mechanisms feature defined contributions plans or defined benefit plans. In the first case, the company's obligation consists of making payments to the state or to a trust or a fund.
Plans with defined benefits are pension, insurance or healthcare plans which provide for the company's obligation, also in the form of implicit obligation, to provide non formalized benefits to its former employees.[3] . The related discounted charges, determined with actuarial assumptions[4], are accrued annually on the basis of the employment periods required for the granting of such benefits.
The application of this principle determined a decrease in shareholders equity at 31st December 2004 of 9 million euros and an increase in 2004 net income of 1 million euros.

4) Goodwill amortisation (ref. IAS 36 – Impairment of assets; IAS 38- Intangible assets)

Under Italian GAAP, goodwill is amortized on a straight-line basis in the periods of its expected utilization, provided it is no longer than five years; in case of specific conditions related to the kind of company the goodwill refers to, goodwill can be amortised for a longer period not exceeding 20 years.
Under IFRS, goodwill cannot be amortised, but it is subject to a yearly evaluation in order to define the relevant impairment, if needed.
The application of IFRS determined an increase in shareholders equity at 31st December 2004 of 31 million euros and an increase in 2004 net income of 53 million euros.

5) Stock grant schemes (ref. IFRS 2 – Share-based payments)

Under Italian GAAP, the cost of stock-based compensation is recognised in the income statement at the stock grants fair value determined pro rata temporis over the year and accrued in a specific provision.
Under IFRS, for stock-based compensation, the company is to measure at fair value goods or services received and estimate the relevant net equity increase.
The application of IFRS determined an increase in shareholders equity at 31st December 2004 of 2 million euros.

3 Given the uncertainties related to their payment date, employee termination indemnities are considered as a defined benefit plan.

4 Actuarial assumptions concern, among other things, the following variables: (i) level of future salaries; (ii) employee mortality rate; (iii) employee turnover rate; (iv) share of participants with successors entitled to benefits (e.g. spouses and children); (v) for medical assistance plans, frequency of reimbursement claims and future changes in medical costs; (vi) interest rates.

Income statement at 30th September 2004

The restatement of the various income statement captions for the first nine months 2004 under IFRS is as follows:

(million €)

	Previously used accounting principles	Effects of IFRS introduction	IFRS
	September 2004		
Revenues	3,069	–	3,069
Operating costs	(2,683)	(3)	(2,686)
Gross operating income	**386**	**(3)**	**383**
Depreciation and amortisation	(186)	31	(155)
Operating income	**200**	**28**	**228**
Financial income/(expenses)	(21)	–	(21)
Income before income taxes	**179**	**28**	**207**
Income taxes	(45)	–	(45)
Minority interest	(3)	–	(3)
Net income	**131**	**28**	**159**

The effects of the IFRS introduction in the first nine months 2004 have determined an increase in the net income of 28 million euros.

Reconciliation of consolidated net income for the first nine months 2004

The following is the reconciliation of consolidated net income for the first nine months 2004 with that deriving from the application of IFRS:

(million €)

Ref.[5]		**September 2004**
	Net income under Italian GAAP	**131**
1	Periodic maintenance provision value restore	(11)
1	Write-off of periodic maintenance costs	7
1	Amortisation of periodic maintenance	(8)
3	Discounted valuation of employee termination indemnities	1
4	Adjustment to goodwill amortisation	39
	Total effect of IFRS introduction	**28**
	Net income under IFRS	**159**

5 The number refers to the caption in the previous section entitled "Nature of main adjustments".

Reclassified cash flow statement at 30th September 2004

The following table details the restatement under IFRS of the reclassified cash flow statement for the first nine months 2004.

(million €)

	Previously used accounting principles	Effects of IFRS introduction	IFRS
	30th September 2004		
Net income	131	28	159
Depreciation, amortisation and other non-monetary items	226	(31)	195
Changes to working capital and other monetary items	(306)	10	(296)
Investments and disposals	(127)	(7)	(134)
Buy-back of treasury shares	(10)		(10)
Cash flow from share capital and reserves	(65)		(65)
Other variations	(1)		(1)
Variation in net debt	**152**	**–**	**152**

Introduction of IAS 32 and IAS 39

With regard to IAS 32 and 39, pertaining to the evaluation and recognition of financial instruments including hedging contracts, Saipem opted to introduce them as of 1st January 2005, as authorised by IFRS 1 “First introduction of International Financial Reporting Standards”, and without restating the values for comparison purposes.
The introduction of the two aforementioned principles has therefore modified the balance sheet at 1st January 2005 as follows:

(million €)

	IFRS 31st December 2004	Effect of the IAS 32/39 introduction	IFRS 1st January 2005	IFRS 30th September 2005
Net tangible fixed assets	1,712		1,712	1,811
Net intangible fixed assets	835		835	831
Financial investments	17		17	28
Working capital, net	2	27	29	74
Provisions for contingencies	(122)		(122)	(130)
Employee termination indemnities	(33)		(33)	(34)
Minority interest in net equity	(9)		(9)	(12)
Net debt	(866)	(8)	(874)	(1,046)
Net equity	**1,536**	**19**	**1,555**	**1,522**

The nature of adjustments that affected net equity at 1st January and 30th September 2005 are as follows:

(million €)

	1st January 2005	30th September 2005
- Treasury shares reclassified against net equity	(22)	(37)
- Evaluation at fair value of foreign currency hedging contracts	70	(54)
- Evaluation at fair value of interest rate hedging contracts	(12)	(12)
Total adjustments as per IAS 32 and 39	**36**	**(103)**

The application of IAS 39 resulted in additional financial charges, for the first nine months 2005, amounting to 6 million euros consisting mainly of the valuation at fair value of the forward component of foreign currency hedging contracts.

Basis of preparation

This quarterly report has been prepared in compliance with the International Financial Reporting Standards (hereafter "IFRS" or International Accounting Standards, hereafter "IAS") issued by the International Accounting Standards Board (IASB)[6] and adopted by the European Commission, pursuant to art. 6 of European Regulation No. 1606/2002 by the European Parliament and European Council of 19th July 2002.

With reference to Consob resolution no. 14990, dated 14th April 2005, the information disclosed in this quarterly report has been prepared in accordance with the provisions of Appendix 3D of Listed Companies regulations (Consob Regulation no. 11971 dated 14th May 1999 and subsequent amendments); for this reason, the provisions of IAS 34 – Interim Financial Statements have not been applied. This Report includes concise financial information in the following tables: balance sheet, income statement, variation to net equity and cash flow statement.

The criteria described in this paragraph may not coincide with the IFRS guidelines applicable on the 31st December 2005 due to future decisions by the European Commission as regards the approval of International Accounting Standards or the issue of new principles, interpretations or implementation guidelines by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretation Committee (IFRIC).

This quarterly report comprises the interim data of Saipem SpA and all Italian and foreign subsidiaries over which Saipem SpA holds the right to exercise direct or indirect control by way of steering its financial and management decisions and reap the relevant benefits. The consolidated financial statements also include, on a line-by-line proportional basis, the interim data of jointly managed companies by way of agreements with the other partners. Companies held exclusively for subsequent sale, those in liquidation and minor investments if considered immaterial are excluded from the consolidation. The effects of these exclusions are not material[7].

Subsidiaries excluded from the consolidation area, associated companies and other holdings have been valued using the criteria described under the heading "Financial Assets".

Contract work in progress includes extra revenues from additional works following modifications to the original contracts where they can be reasonably undertaken. Owing to the ever-increasing volumes generated by EPIC (Engineering, Procurement, Installation and Construction) type projects, which are intrinsically highly complex, large-scale, long-term and involve a high level of unpredictability, the periodic statements include expected additional revenues even before a formal agreement with the counterpart is reached.

The economic information provided in this report refers to the first nine months 2005 as well as the first nine months 2004. Financial data refers to 30th September 2005 and 31st December 2004. The financial tables have been compiled to allow easy comparison with the six-monthly and annual reports.

Unless otherwise indicated, data is expressed in millions of euros.

In accordance with CONSOB regulations, quarterly reports are not subject to audit.

6 IFRS comprise of: (i) International Financial Reporting Standards (IFRS); (ii) International Accounting Standards (IAS); (iii) interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and by the Standing Interpretations Committee (SIC) and adopted by IASB. The denomination International Financial Reporting Standards (IFRS) was adopted by IASB and applies to all standards issued after May 2003. Standards issued before May 2003 have maintained the denomination IAS.

7 According to the dispositions of the Framework of international accounting standards, "information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements".

Consolidation principles

The IFRS application has not produced significant variations versus the consolidation principles adopted for the preparation of the Consolidated and Statutory Financial Statements at 31st December 2004.

Interests in companies included in consolidation

Assets and liabilities, expense and income related to fully consolidated companies are wholly incorporated into the consolidated balance sheet; the accounting value of these interests is eliminated against the corresponding fraction of the shareholders' equity of the companies owned.
The accounting value of interests in companies consolidated using the proportional method is eliminated against the corresponding fraction of the shareholders' equity of the companies owned; assets and liabilities, expense and income related to consolidated companies are incorporated into the balance sheet proportionally to the interest held.
The shareholders' equity in owned companies is determined by attributing to each item of the balance sheet the current value at the date of acquisition of control. Any positive residual difference is recognized under "Difference in consolidation". Negative residual differences are charged against income.
Income or expenses deriving from the disposal of interests in consolidated companies are charged against income, i.e. the difference between the sale price and the corresponding fraction of shareholders' equity sold.
Fractions of shareholders' equity and of net income of minority interest are recognized under specific items in the income statement. Minority interest is determined based on the current value attributed to assets and liabilities at the date of the acquisition of control, excluding any related goodwill.
Dividends, revaluations, write-downs and losses on interests in consolidated companies, in addition to gains and/or income on inter-company disposals of shareholdings in consolidated companies are eliminated.

Inter-company transactions

Income deriving from inter-company transactions unrealized towards third parties is eliminated. Receivables, payables, income and expenditure as well as guarantees, commitments and risks between consolidated companies are also eliminated.

Foreign currency translation

Financial statements of consolidated companies denominated in currencies other than the euro are converted to euro applying: (i) exchange rates prevailing at the end of the period to assets and liabilities; (ii) the historic exchange rates to equity accounts; (iii) the average rates for the period (source: Italian Exchange Bureau) to income statement accounts.
Exchange rate differences from conversion deriving from the application of different exchange rates for assets and liabilities, shareholders' equity and income statement are recognized under the item "Reserve for exchange rate differences" within shareholders' equity for the portion relating to the Group and under the item "Minority interest" for the portion related to minority shareholders'.
Financial statements of foreign subsidiaries which are translated into euros are denominated in their functional currencies, i.e. the local currency or the currency used for the majority of economic transactions, assets and liabilities.

Valuation criteria

The most significant evaluation criteria used for the preparation of the consolidated financial statements are shown below.

Tangible assets

Tangible assets are stated at their purchase or production cost including ancillary costs which can be directly attributed to them that are required to make the asset ready for use. In addition, when a substantial amount of time is required to make the asset ready for use, the purchase price or production cost includes the financial expenses that would have theoretically been saved had the investment not been made. The purchase or production costs are net of Government grants that are recorded in a contra asset account when authorized, if all the required conditions have been met.
No revaluation is allowed even in application of specific laws.
Assets carried in financial leasing are stated among the tangible assets, as a contra to the financial payable to the lessor, and depreciated using the criteria detailed below.
Tangible assets, including financial leasing, are amortized systematically over the duration of their useful life taken as an estimate of the period for which the assets will be used by the company. When the tangible asset comprises more than one significant element with different useful lives, the amortization is carried out for each component. The amount to be depreciated is represented by the book value reduced by the presumable net realizable value at the end of the useful life, if it is significant and can be reasonably determined. Land is not depreciated, even if bought together with a building as well as tangible disposal assets which are valued at the lower of book value and fair value less costs to sell.
Assets that can be used free of charge are depreciated over the shorter of the duration of the concession and the asset useful life.
Renewals, improvements and transformations which extend asset lives are capitalized.
The costs for the substitution of identifiable components in complex assets are capitalized and depreciated over their useful life; the residual book value of the component that has been substituted is charged to the income statement. Ordinary maintenance and repair costs are expensed when incurred.
When events occur that lead to a presumable reduction in the book value of tangible assets, their recoverability is checked by comparing their book value with the realizable value, represented by the greater of fair value less costs to sell and replacement cost.
In the absence of a binding sales agreement, fair value is estimated on the basis of market values, of recent transactions, or of the best available information that shows the proceeds that the company could reasonably expect to collect from the asset's disposal.
Replacement cost is determined by discounting the expected cash flows deriving from the use of the asset and, if significant and reasonably determinable, the cash flows deriving from its disposal at the end of its useful life. Cash flows are determined on the basis of reasonable and documented assumptions that represent the best estimate of the future economic conditions during the remaining useful life of the asset, giving more importance to independent assumptions. The discounting is carried out at a rate that takes into account the implicit risk in the sector.
Valuation is carried out for each single asset or, if the realizable value of single assets cannot be determined, for the smallest identifiable group of assets that generates independent cash inflows from their continuous use, so called cash generating unit.
When the reasons for their impairment cease to exist, Saipem reverses previously

recorded impairment charges and records an income as asset revaluation in the income statement of the relevant year. This asset revaluation is the lower of the fair value and the book value increased by the amount of previously incurred write-downs net of related amortization that would have been made had the impairment not been made.
Tangible assets destined for specific operating projects, for which no further future use is envisaged due to the peculiarities of the asset itself or the high usage sustained during the execution of the project, are amortised over the duration of the project.

Intangible assets

Intangible assets include assets which lack physical consistence that are identifiable, controlled by the company and able to produce future economic benefits, and goodwill acquired in business combinations.
Intangible assets are stated at purchase or production cost determined with the criteria used for tangible assets. No revaluation is allowed even in application of specific laws.
Intangible assets with a defined useful life are amortized systematically over the duration of their useful life taken as an estimate of the period for which the assets will be used by the company; the recoverability of their book value is checked using the criteria shown in the section "Tangible Assets".
Goodwill and other intangible assets with indefinite useful life are not amortized.
The recoverability of their carrying value is checked at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. With reference to goodwill, this check is performed at the level of the smallest aggregate on which the company, directly or indirectly, evaluates the return on the capital expenditure that included said goodwill. Depreciations may not be revaluated.

Costs for scientific and technological research

Capital expended for the acquisition of new know-how or discoveries, the development of alternative products or processes, new techniques or modes, the design and realisation of prototypes or all other scientific and technological research and development activities are generally considered to be current costs and are expended to the year in which they are incurred.
Research and development costs are stated in the assets when:

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

Financial fixed assets

Investments in subsidiaries excluded from consolidation, joint ventures and affiliates are accounted for using the equity method. If it does not result in a misrepresentation of the company's financial condition and consolidated results,

subsidiaries excluded from consolidation may be accounted for at cost, adjusted for permanent impairment of value.
Other investments are recognized at their fair value and their effects are charged to shareholders' equity. When fair value cannot be reasonably ascertained, investments are accounted for at cost, adjusted for permanent impairment of value.
When the reasons for their impairment cease to exist, investments accounted for at cost are revaluated within the limit of the impairment made and their effects are charged to the income statement.
The risk deriving from losses exceeding shareholders' equity is recognized in a specific reserve to the extent the parent company is required to fulfil legal or implicit obligations towards the subsidiary or to cover its losses.
Receivables and financial assets that must be maintained until expiry are stated at cost represented by the fair value of the initial exchanged amount adjusted to take into account direct external costs related to the transaction (e.g. fees of agents or consultants, etc.). The initial carrying value is then corrected to take into account capital repayments, devaluations and amortization of the difference between the reimbursement value and the initial carrying value; amortization is carried out on the basis of the effective internal rate of return represented by the rate that equalizes, at the moment of the initial revaluation, the current value of expected cash flows to the initial carrying value (so-called amortized cost method). The effects of the devaluation to the amortized cost are charged to the item "Financial Income/(expenses)".

Current assets

Inventories, with the exception of contract work-in-progress, are stated at the lower price between the purchase price calculated according to the criteria for intangible assets and the market value.
The cost for inventories is determined by applying the weighted-average cost method.
As inventories mostly consist of spare parts, the market value thereof is represented by their replacement cost or by their net realisable value, if lower.
Contract work-in-progress relating to long-term contracts is stated on the basis of accrued contractual revenues, agreed with the customers using the percentage of completion method and complying with the principle of prudence.
Given the nature of the contracts and the type of work, the percentage of completion is calculated on the basis of the work performed, being the percentage of costs incurred with respect to the total estimated costs (cost-to-cost method).
Adjustments made for the economic effects of using this method with respect to the revenues invoiced are included under "work-in-progress" if positive or under "commercial payables" if negative.
The agreed revenues, where expressed in a foreign currency, are calculated by taking into account the exchange rate fixed by the designated hedge; the same method is used for any costs in a foreign currency.
The valuation of work-in-progress considers all directly related costs, contractual risks and contractual price revisions, where they can be objectively determined.
Modifications to original contracts, for additional works, are acknowledged when they can reasonably be undertaken. Contract losses are charged entirely to the year in which they become known.
Bidding costs are expended in the year in which they are incurred.
Financial assets held for trading and financial assets available for disposal are stated at fair value and the economic effects charged, respectively, to the income statement item "Financial Income/(Expenses)" and the shareholders' equity item "Other reserves".
When the conditions for the purchase or sale of financial assets provide for the settlement of the transaction and the delivery of the assets within a given number of days determined by entities controlling the market or by agreements (e.g. purchase of

securities on regulated markets), the transaction is entered at the date of settlement.
Receivables are stated at their amortized cost (see above "Financial fixed assets").
Transferred financial assets are eliminated when the transaction, together with the cash flows deriving from it, lead to the substantial transfer of all risks and benefits associated to the property.

Treasury shares

Treasury shares are recorded at cost and as a reduction of shareholders' equity. Income from subsequent sales of treasury shares is recorded as an increase of shareholders' equity.

Financial liabilities

Debt is recorded using the amortized cost method (see "Financial assets").

Provisions for contingencies

Provisions for contingencies concern risks and charges of a definite nature and whose existence is certain or probable but for which at year-end the amount or date of occurrence remains uncertain. Provisions are made when: (i) there is a current obligation, either legal or implicit, deriving from a past event; (ii) it is probable that the fulfilment of that obligation will be expensive; (iii) the amount of the obligation can be accurately estimated. Provisions are stated at the value that represents the best estimate of the amount that the company would reasonably pay to fulfil the obligation or to transfer it to third parties at year-end.
When the financial effect of time is significant and the payment date of the obligations can be reasonably estimated, the provisions are discounted; the increase in the provision linked to the passing of time is charged to the income statement in the item "Financial Income/(Expenses)".
When the liability regards a tangible asset (e.g. site restoration and abandonment), the provision is stated as a contra to the asset to which it refers; the income statement charge is made with the amortization process.
The costs that the company expects to bear to carry out restructuring plans are recognized in the year in which the company formally defines the plan and the interested parties have developed the reasonable expectation that the restructuring will happen.
The provisions are periodically updated to show the variations of estimates of costs, production times and actuarial rates; the estimate revisions of the provisions are recognized in the same income statement item that had previously held the provision, or, when the liability regards tangible assets (i.e. site restoration and abandonment) as a contra to the assets to which they refer.

Employee post-employment benefits

Post employment benefit plans are defined on the basis of plans, even if not formalized ones, which due to their mechanisms feature defined contributions plans or defined benefit plans. In the first case, the company's obligation, consisting in making payments to the State or to a trust or a fund, is determined on the basis of due contributions, minus any sums already paid.

The liabilities related to defined benefit plan[8], net of any plan assets, are determined on the basis of actuarial assumptions[9] and charged to the relevant year consistently with the employment period required to obtain the benefits; the evaluation of liabilities is made by independent actuaries.
The actuarial gains and losses of defined benefit plans, deriving from a change in the actuarial assumptions used or from a change in the conditions of the plan, are charged to the income statement, in the limits of the share of the discounted profit/loss not charged beforehand, that exceeds the greater of 10% of liabilities and 10% of the fair value of the plan assets (corridor method).

Revenues and costs

Revenues from sales of products and services rendered are recognized upon transfer of risks and benefits associated to the property or upon settlement of the transaction.
Revenues are recognized upon shipment when the risks of loss are transferred to the acquirer at that date.
The allowances of revenues related to partially rendered services are recognized with respect to the accrued considerations, if it is possible to reasonably determine the state of completion and there are no relevant uncertainties concerning the amounts and the existence of the revenue and related costs; differently they are recognized within the limits of the recoverable costs incurred.
The revenues related to contract work-in-progress are recognized on the basis of contractual considerations by reference to the stage of completion of a contract measured on the cost-to-cost basis. Revenues for contract work-in-progress in a foreign currency are recognised at the euro exchange rate on the date the stage of completion of a contract is measured with the customer or, at the exchange rate on the day of payment. work that has not yet been agreed is recognised at the year-end exchange rate. The requests of additional revenues, deriving from a change in the scope of the work, are included in the total amount of revenues when it is probable that the customer will approve the variation and the relevant amount; claims deriving for instance from additional costs incurred for reasons attributable to the client are included in the total amount of considerations when it is probable that the counterpart will accept them.
Revenues are stated net of returns, discounts, rebates and bonuses, as well as directly related taxation.
Costs are recognized when the related goods and services are sold, consumed or allocated, or when their future useful lives cannot be determined.
Labour costs include stock grants and stock options granted to managers from 1st January 2003, consistently with their actual remunerative nature. The cost is determined based on the fair value of the rights awarded to the employee, plus any charges borne by the employer (social contributions and employee termination benefits); the portion relevant to the year is calculated pro rata over the period to which the incentive refers (vesting period)[10] . The fair value of stock grants is represented by the current value of the shares at the date of the award, reduced by the current value of the expected dividends in the vesting period. The fair value of stock options is the value of the option calculated with the Black-Scholes method that takes into account the exercise conditions, current price of the shares, expected volatility and the risk-free rate.

8 Given the uncertainties related to their payment date, employee termination indemnities are considered as a defined benefit plan.

9 Actuarial assumptions concern, among other things, the following variables: (i) level of future salaries; (ii) employee mortality rate; (iii) employee turnover rate; (iv) share of participants with successors entitled to benefits (e.g. spouses and children); (v) for medical assistance plans, frequency of reimbursement claims and future changes in medical costs; (vi) interest rates.

10 For stock grants, the period between the date of the award and the date of allocation of stock; for stock options, the period between the date of the award and the date on which the option can be exercised.

The fair value of stock grants and stock option plans for Saipem SpA employees is shown in the item "Labour costs – other costs" and as a contra to "Available reserves". The allowance for employee termination benefits and social contributions calculated on the fair value is recognised in a contra account in the item "Provision for employee benefits".
The fair value of stock grant plans for employees of controlled companies is shown at the date of option allocation in the item "Financial charges" and as a contra to "Available reserves" and is subsequently recharged to the various companies in a contra account in the item "Financial gains - other".
The fair value of stock option plans is shown as a contra-entry in the item "Retained earnings".

Exchange rate differences

Revenues and costs concerning transactions in foreign currency are stated at the exchange rate on the date that the transaction is completed.
Monetary assets and liabilities in foreign currency are converted into euro by applying the year-end exchange rate and the effect is stated in the income statement.
Non-monetary assets and liabilities in foreign currency valued at cost are stated at the initial exchange rate; when they are evaluated at fair value, at recoverable value or realizable value, the exchange rate applied is that of the day of recognition.

Dividends

Dividends are recognized at the date of the general shareholders' meeting declaring them.

Taxes

Current income taxes are determined on the basis of the estimated taxable income; the estimated liability is recognized in the item "Current tax liabilities". Current tax assets and liabilities are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.
Deferred tax assets or liabilities are recognized for temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are recognized when their realization is probable.
Deferred tax assets and liabilities are recorded under non-current assets and liabilities and are offset at single entity level if referred to offsettable taxes. The balance of the offset, if positive is recognized in the item "Deferred tax assets" and if negative in the item "Deferred tax liabilities".

Derivatives

Derivatives are assets and liabilities recognized at their fair value.
Consistently with its business requirements, Saipem classifies derivatives as hedging instruments, whenever possible.
Derivatives are classified as hedging instruments when the relationship between the derivative and the subject of the hedge is formally documented and the

effectiveness of the hedge is high and is checked periodically. When hedging instruments cover the risk of variation of the fair value of the hedged item (fair value hedge; e.g. hedging of the variability on the fair value of fixed interest rate assets/liabilities), the derivatives are stated at fair value and the effects charged to the income statement; consistently the hedged items are adjusted to reflect the variability of fair value associated with the hedged risk.
Cash flow hedges cover the cash flow variation risks that may affect the profit and loss account in the future; these risks are usually associated to a balance sheet asset or liability (such as future payables of debts at variable interest rates) or highly probable forecast transactions, for instance project income/costs.
The effective portion of variations in fair value of derivatives, as defined as hedging contracts by IAS 39, are posted to a hedging reserve and are charged as income over the period when the hedge affects the profit and loss account.
The ineffective portion of variations in fair value of derivatives, as well as the entire variations in fair value of those derivatives that have not been defined as hedging contracts by IAS 39, are charged directly to the income statement in the item "financial income/(expenses)".

Exposure to and management of financial risks

Saipem operates worldwide in business sectors that are exposed to market risks resulting from changes in interest rates, exchange rates and price of materials. The risk of fluctuations in prices and financial flows is strictly linked to the nature of this business and can only be partially offset through appropriate risk management policies.
Risk of variations of prices and financial flows
Saipem's results are influenced by variations in oil prices, insurance premia and price of materials. Furthermore, Saipem's financial flows are exposed to fluctuations in interest and exchange rates.
Saipem is exposed to exchange rate fluctuations because the Group operates in non-euro areas, revenues from operational contracts are denominated or linked to the US dollar, and because of the time lag between the occurrence of revenues and costs denominated in a currency different from that of the financial statements and their financial realisation. Saipem's strategy to reduce the market risk exposure arising from exchange rate fluctuations by utilising derivatives. Planning and management for this activity is the responsibility of the Treasury Department, which closely monitors the correlation between derivatives and their underlying flows as well as ensuring their correct accounting representation in compliance with the international financial reporting standards.
The risk exposure arising from interest rate fluctuations within the Saipem Group is associated mainly long-term financing with variable rates. To reduce this risk, Interest rate swaps (I.R.S.) are entered into, as they also ensure a balanced relation between debt at fixed and variable interest rates.
Credit risk
Credit risk represents Saipem's exposure to incur a loss in the event of non-performance by a counterparty. Credit risk related to the ordinary course of trade activities is managed by the business units and the administration department on the basis of standardized procedures and periodic reporting. As for financial investments and the utilization of financial instruments, including derivatives, companies adopt the guidelines issued by the Treasury Department of Saipem SpA.
Liquidity risk
Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. In the current situation, through the management of flexible credit lines suitable with business requirements, Saipem believes to have access to sufficient funding to meet currently foreseeable borrowing requirements.

Use of accounting estimates

The preparation of these consolidated financial statements required management to apply accounting methods and policies that are based on difficult or subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

Economic results

Foreword

As previously stated, revenues and associated profit levels, particularly in the Offshore and Onshore Construction sectors, L.N.G. (Liquefied Natural Gas), and, to a lesser extent, in the Drilling, Leased FPSO and M.M.O. (Maintenance, Modification and Operation) sectors, are not consistent over time, as they are not only influenced by market performance but also by climatic conditions and individual project schedules. Consequently, the results from any one particular fiscal period or fraction thereof can vary significantly, thereby precluding a direct comparison with the same period in other fiscal years and do not allow for extrapolation of figures from a single quarter to the entire year.

Consolidated income statement (million €)

	Third Quarter			First nine months		
	2004	**2005**	**Var.%**	**2004**	**2005**	**Var.%**
Revenues						
Revenues from operations	1,158	1,081	(6.6)	3,069	3,200	4.3
Other revenues and income	1	5		6	8	
Total revenues	**1,159**	**1,086**	**(6.3)**	**3,075**	**3,208**	**4.3**
Operating costs						
Purchases, services and other costs	(826)	(718)		(2,143)	(2,211)	
Payroll and related costs	(197)	(227)		(549)	(608)	
Amortisation, depreciation and write-downs	(56)	(52)		(155)	(146)	
Operating income/(loss)	**80**	**89**	**11.3**	**228**	**243**	**6.6**
Financial expenses	(11)	(12)		(33)	(38)	
Income/(expenses) from investments						
Effect of the evaluation using the net equity method	5	4		12	16	
Income taxes	**(17)**	**(17)**		**(45)**	**(47)**	
Net income before minority interest	**57**	**64**	**12.3**	**162**	**174**	**7.4**
Minority interest	(1)	(1)		(3)	(3)	
Net income	**56**	**63**	**12.5**	**159**	**171**	**7.5**
Cash flow (net income + depreciation and amortisation)	**112**	**115**	**2.7**	**314**	**317**	**1.0**

In line with the annual financial statements and the six-monthly report, this quarterly report includes the reclassified consolidated income statement by destination of costs.
This reclassification is normally used to analyse the positive and negative income components, which determine the contribution from operations (i.e. operating income before general and administrative expenses) for the various business sectors in which Saipem operates.

Operating income and costs by destination						(million €)
	Third Quarter			First nine months		
	2004	2005	Var.%	2004	2005	Var.%
Revenues	**1,158**	**1,081**	**(6.6)**	**3,069**	**3,200**	**4.3**
Operating costs	(1,008)	(926)		(2,637)	(2,776)	
Idle costs	(22)	(19)		(61)	(38)	
Selling expenses	(16)	(15)		(52)	(49)	
Research and development costs	(3)	(2)		(6)	(5)	
Other operating income, net	–	(1)		2	–	
Contribution from operations	**109**	**118**		**315**	**332**	
General and administrative expenses	(29)	(29)		(87)	(89)	
Operating income	**80**	**89**	**11.3**	**228**	**243**	**6.6**

Third Quarter

Revenues for the third quarter 2005 amounted to 1,081 million euros, a decrease of 77 million euros versus the third quarter 2004.
Operating costs amounted to 926 million euros, n increase of approximately 8.1% versus those for the same period 2004. This decrease in operating costs is linked to reduced volumes generated during the period.
Labour costs amounted to 227 million euros, a 15.2% increase versus the third quarter 2004, and is due to the full-scale operations of projects under execution.
Contribution from operations in the third quarter 2005 amounted to 118 million euros, an increase of 9 million euros versus the third quarter 2004, which has been analysed in depth under the various business units.
General and administrative expenses in the third quarter 2005 amounted to 29 million euros, in line with those for the same quarter the previous year.
Hence, operating income stood at 89 million euros.

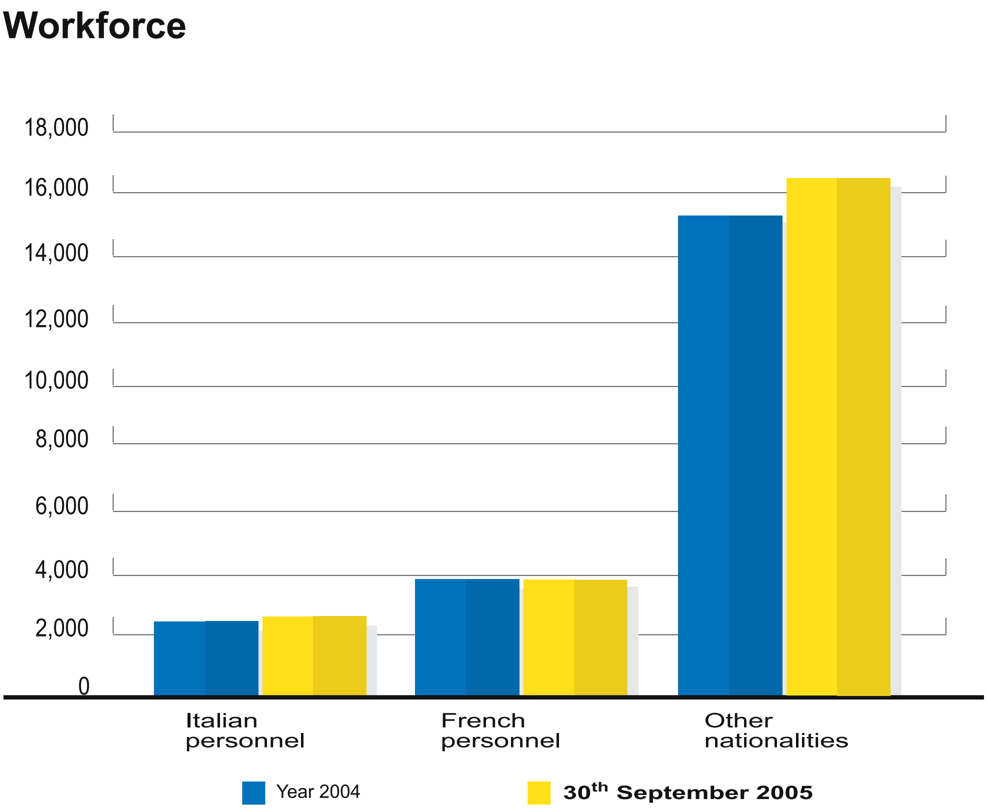
First nine months

Revenues for the first nine months 2005 amounted to 3,200 million euros, an increase of 131 million euros versus those of the first nine months 2004, mainly due to higher levels of activity in the Onshore Construction and LNG sectors.
Operating costs amounted to 2,776 million euros, an increase of approximately 5.3% versus those for the same period 2004. Higher operating costs are due to increased revenues for the period.
Labour costs amounted to 608 million euros, a 10.7% increase versus the first nine months 2004, due to the full-scale operations of projects under execution.
Contribution from operations in the first nine months 2005 amounted to 332 million euros, an increase of 17 million euros versus that for the first nine months 2004.
General and administrative expenses in the first nine months 2005 amounted to 89 million euros, an increase of 2 million euros versus those for the same period the previous year.
Hence, operating income stood at 243 million euros.

Human resources

The following table provides data comparing average employment levels at the end of 2004 and the first nine months 2005.

Average workforce	Year 2004	30th September 2005
Italian personnel	2,443	2,515
French personnel	3,839	3,765
Other nationalities	15,393	16,663
Total	**21,675**	**22,943**
Offshore Construction	6,958	7,708
Offshore Drilling	1,042	1,045
Leased FPSO	94	118
Onshore Construction	7,531	7,361
Onshore Drilling	2,165	2,287
Liquefied Natural Gas	697	700
Maintenance Modification and Operation	1,613	1,710
Staff positions	1,575	2,014
Total	**21,675**	**22,943**
No. of engineers at end of period	**3,508**	**3,631**



Consolidated balance sheet and financial position

(million €)

		31st December 2004 (*)		30th September 2005
Net tangible fixed assets		1,712		1,811
Net intangible fixed assets		835		831
		2,547		2,642
- Offshore Construction	1,146		1,223	
- Offshore Drilling	725		729	
- Leased FPSO	65		96	
- Onshore Construction	245		235	
- Onshore Drilling	80		74	
- Liquefied Natural Gas	175		173	
- Maintenance Modification and Operation	83		84	
- Other	28		28	
Financial investments		17		28
Non-current assets		**2,564**		**2,670**
Working capital	29		74	
Provision for contingencies	(122)		(130)	
Net current assets		**(93)**		**(56)**
Employee termination indemnities		**(33)**		**(34)**
Capital employed		**2,438**		**2,580**
Net equity		**1,555**		**1,522**
Minority interest in net equity		**9**		**12**
Net debt		**874**		**1,046**
Cover		**2,438**		**2,580**
Issued and outstandindg shares		**441,177,500**		**441,410,900**

** Figures have been adjusted following the introduction of IAS 32 and IAS 39 from 1st January 2005.*

Investments	Third Quarter		First nine months (million €)	
	2004	**2005**	**2004**	**2005**
Offshore Construction	28	58	66	140
Offshore Drilling	5	11	34	38
Leased FPSO	–	22	–	38
Onshore Construction	3	4	15	10
Onshore Drilling	6	1	9	8
Liquefied Natural Gas	–	–	4	1
Maintenance Modification and Operation	1	1	1	2
Saipem Offices	3	3	9	4
Total	**46**	**100**	**138**	**241**

Investments in the first nine months 2005 amounted to 236 million euros (128 million in the same period 2004) and consisted mainly of the following: maintenance and upgrading of existing asset base (92 million euros); investments in vessels and equipment for specific projects, mainly Kashagan and Sakhalin (79 million euros); capex to strengthen the operating bases/yards in Kazakhstan and West Africa (27 million euros); the acquisition of a tanker and the start of its conversion into an FPSO unit, due to operate on Petrobras' Golfinho 2 field in Brazilian waters (38 million euros).

Variation in net equity (million €)

	30th September 2004	31st December 2004	1st January 2005	30th September 2005
Initial Group net equity	**1,374**	**1,374**	**1,536**	**1,555**
Group net income	159	235	–	171
IAS net equity adjustments	1	4	–	–
First application of IAS 32 & 39 – treasury shares	–	–	(22)	(15)
First application of IAS 32 & 39 – fair value hedging operations	–	–	41	(124)
Dividend distribution	(65)	(65)	–	(65)
Translation differences	–	(12)	–	–
Total	**95**	**162**	**19**	**(33)**
Resulting Group net equity	**1,469**	**1,536**	**1,555**	**1,522**

The net equity during the first nine months 2005 decreased by 33 million euros due to the value of treasury shares bought back in order to service the stock grant and stock option schemes, which were duly reclassified (15 million euros), the fair value of hedging operations (Interest Rate Swaps) of 124 million euros and dividend distribution (65 million euros), partially offset by the net income for the period of 171 million euros.

Reclassified statement of cash flow and variation in net debt		(million €)
	September 2004	September 2005
Group net income	159	171
Third party income	3	3
Depreciation and amortisation	155	146
Other non-monetary items	37	46
Cash generated from operating income before variation in working capital	**354**	**366**
Variation in working capital relating to operations and other monetary items	(296)	(209)
Net cash flow from operations	**58**	**157**
Investments	(138)	(241)
Disposals	4	1
Free cash flow	**(76)**	**(83)**
Variation in financial debt	121	222
Buy-back of treasury shares	(10)	(22)
Cash flow from share capital and reserves	(65)	(65)
Other variations	6	14
Net cash flow	**(24)**	**66**
Free cash flow	**(76)**	**(83)**
Buy-back of treasury shares	(10)	(22)
Cash flow from share capital and reserves	(65)	(65)
Other variations	(1)	(2)
Variation in net debt	**(152)**	**(172)**

Net financial debt

Net financial debt at 30th September 2005 amounted to 1,046 million euros, versus 874 million euros at 1st January 2005.
The income generated during the period (net income plus depreciation and amortisation) amounting to 317 million euros only partially compensated for capital expenditure in tangible and intangible fixed assets (241 million euros), the increase in net current assets (157 million euros), payments of dividends (65 million euros), the buy-back of treasury shares (22 million euros) and the effect of the fair value evaluation of interest rate hedging contracts (4 million euros). This resulted in an increase in net financial debt of 172 million euros.
In the third quarter 2005, net financial debt increased by 104 million euros from 942 million euros at 30th June 2005 to 1,046 million euros at 30th September 2005.
The company's financial position at 30th September 2005 shows short-term net financial debt of 460 million euros (379 million at 1st January 2005) and medium/long term financial debt of 586 million euros (495 million at 1st January 2005).

New contracts

In the first nine months 2005, Saipem was awarded new contracts totalling 3,322 million euros (3,140 million euros in the same period 2004), of which 2,498 million euros in the Offshore sectors (Construction, Drilling and Leased FPSO).
During the third quarter, Saipem was awarded contracts amounting to 1,080 million euros (1,206 million euros in the same period 2004).
The most significant orders awarded in the third quarter 2005 include:

Offshore Construction:
- on behalf of Statoil, the Skinfaks/Rimfaks project in Norway, comprising the transport and installation of two sealines, umbilicals, spools and other subsea structures;
- on behalf of Canadian Natural Resources, the Columba E Water Injection project in the British sector of the North Sea, comprising installation, trenching and tie-in of an umbilical connecting the Columba E well to the topsides on the Ninian South platform.

Offshore Drilling:
- on behalf of Gujarat State Petroleum Corporation Ltd, the eighteen-month lease extension of the Jack Up Perro Negro 3 in India;
- on behalf of Burullus Gas Company, the three-month lease extension of the semi-submersible platform Scarabeo 6 in Egypt;
- on behalf of Eni Congo SA, one-year maintenance and workover operations in Congo.

Onshore Drilling:
- on behalf of KPO, the one-year lease of two rigs in Kazakhstan;
- on behalf of Zhaikmunai LLP, the one-year lease of one rig in Kazakhstan;
- on behalf of Repsol, the one-year lease of a rig in Algeria;
- on behalf of Repsol, the lease of two rigs, for two and five months respectively, in Venezuela.

Leased FPSO:
- on behalf of Petrobras, the contract for the provision and management of an FPSO unit due to operate on Golfinho 2 field off the coast of Brazil at a water depth of 1,400 metres. The firm contract lease period is nine years and may be extended for further three years with yearly options. In terms of the agreement Saipem is to convert a tanker into an FPSO unit with a storage capacity of up to 1,600,000 barrels and a production capacity of 100,000 barrels a day.

At the end of September 2005, the backlog stood at 5,428 million euros (5,306 million euros at 31st December 2004).

Management expectations for 2005

The positive overall trend of the market and Saipem's track record and competitiveness, especially on complex projects in frontier areas, underpin expectations for 2005 to achieve further revenue growth, improving on the 2004 record, as well as the award of new contracts to maintain the high backlog level.
The company's financial results are affected by Saipem's substantial euro-denominated structural costs, whilst the currency of its reference market is the US Dollar. The impact of the euro/dollar exchange rate variations is felt approximately one year after contract award, i.e. the average time lag between contract acquisition (and hedging), and execution. In 2005 therefore, Saipem will carry out contracts that were won (and hedged) when the euro was particularly strong.
Nevertheless, volumes are expected to grow and prices may be adjusted, albeit gradually, in line with the variations in the euro/US Dollar exchange rate in those business sectors and those areas where US competition is weakest. This, at present, supports the expectation that, in 2005, the Group can repeat the record 2004 results, with possible room for further improvement.

Capital expenditure for 2005 is estimated at approximately 365 million euros, and will cover maintenance and upgrading of existing asset base, investments in new equipment for specific projects, capex to strengthen the operating bases/yards in Kazakhstan, Nigeria and Angola, and the start of work on the conversion of a tanker into an FPSO unit due to operate in the Petrobras' Golfinho 2 field in Brazilian waters.

Forward-looking statements are based on a number of assumptions and expectations that could ultimately prove inaccurate, as they are subject to risks and variables outside the company's control. These include: currency fluctuations, interest rate fluctuations, the level of capital expenditure in the oil and gas industry, as well as other industries, political instability in those regions in which Saipem operates, and actions by the competition. Moreover, contract execution is also subject to variables outwith the company's control, such as weather conditions. Actual results could therefore differ materially from the forward-looking statements.

Analysis by business sector

Offshore Construction

(million €)

	Third Quarter		First nine months	
	2004	**2005**	**2004**	**2005**
Revenues	732	615	1,907	1,872
Operating expenses, net of cost of materials	(550)	(415)	(1,418)	(1,249)
Cost of materials	(98)	(107)	(252)	(362)
Depreciation and amortisation	(24)	(19)	(71)	(63)
Contribution from operations (*)	60	74	166	198
New orders awarded	776	322	1,898	1,827

(*) Operating Income before general and administrative expenses

The backlog at 30th September 2005 amounted to 3,258 million euros, of which 693 million are to be realised in the fourth quarter 2005.

- Revenues in the first nine months 2005 amounted to 1,872 million euros, a 2% decrease versus the same period 2004, mainly due to reduced activities in West Africa, which were only partially offset by the recovery of operations in the North Sea.

- Contribution from operations in the first nine months 2005 amounted to 198 million euros, equal to 10.6% of revenues, versus 166 million euros, equal to 8.7% of revenues in the same period 2004. The increase in margin with respect to the previous year is due to improved efficiency on a number of projects that are in their final stage of completion and a greater incidence of North Sea projects.

Offshore Drilling

(million €)

	Third Quarter 2004	Third Quarter 2005	First nine months 2004	First nine months 2005
Revenues	73	73	213	213
Operating expenses	(46)	(46)	(133)	(134)
Depreciation and amortisation	(12)	(12)	(34)	(34)
Contribution from operations (*)	15	15	46	45
New orders awarded	21	47	61	186

(*) *Operating Income before general and administrative expenses*

The backlog at 30th September 2005 amounted to 290 million euros, of which 63 million are to be realised in the fourth quarter 2005.

- Revenues for the first nine months 2005 are in line with those recorded in the same period 2004.

- Contribution from operations in the first nine months 2005 was virtually unchanged when compared to the same period 2004, as was profitability as a percentage of revenues. Reduced utilisation of the drillship Saipem 10000, which completed preparatory works early in the third quarter prior to commencing a contract in Angola, nullified the positive effects of the almost full-scale operations of the semi-submersible platform Scarabeo 4 and the jack-up Perro Negro 5 during the third quarter 2005.

- Vessel utilisation was as follows:

Vessel	Days under contract	
Semi-submersible platform Scarabeo 3	273	
Semi-submersible platform Scarabeo 4	161	**a**
Semi-submersible platform Scarabeo 5	273	
Semi-submersible platform Scarabeo 6	273	
Semi-submersible platform Scarabeo 7	273	
Drillship Saipem 10000	233	**a**
Jack-up Perro Negro 2	256	**b**
Jack-up Perro Negro 3	273	
Jack-up Perro Negro 4	273	
Jack-up Perro Negro 5	83	**a**

a *= for the remaining days (to 273), the vessel underwent upgrading works in readiness for a new contract.*
b *= for the remaining days (to 273), the vessel underwent class reinstatement works.*

Leased FPSO

(million €)

	Third Quarter		First nine months	
	2004	**2005**	**2004**	**2005**
Revenues	13	7	37	20
Operating expenses	(8)	(3)	(20)	(10)
Depreciation and amortisation	(3)	(3)	(8)	(7)
Contribution from operations (*)	2	1	9	3
New orders awarded	13	482	22	485

(*) Operating Income before general and administrative expenses

The backlog at 30th September 2005 amounted to 582 million euros, of which 5 million are to be realised in fourth quarter 2005.

- In the first nine months 2005, revenues decreased by 17 million euros versus the same period 2004. This fall in volumes and the 6 million euro reduction in contribution from operations compared to the first nine months 2004, are mainly due to the fact that the Prestige project was in full operation during 2004.

Onshore Construction

(million €)

	Third Quarter		First nine months	
	2004	**2005**	**2004**	**2005**
Revenues	174	186	452	518
Operating expenses, net of cost of materials	(118)	(126)	(303)	(353)
Cost of materials	(33)	(38)	(88)	(106)
Depreciation and amortisation	(7)	(9)	(17)	(20)
Contribution from operations (*)	16	13	44	39
New orders awarded	181	38	500	182

(*) *Operating Income before general and administrative expenses*

The backlog at 30th September 2005 amounted to 427 million euros, of which 140 million are to be realised in the fourth quarter 2005.

- Revenues in the first nine months 2005 amounted to 518 million euros, a 14.6% increase, versus the same period 2004, due to higher levels of activity on the Sakhalin project in Russia and the full-scale activity on projects in Nigeria.

- Contribution from operations, in the first months 2005, amounted to 39 million euros, versus 44 million euros in the same period 2004, with margins declining from 9.7% to 7.5%. This fall in profitability is partially attributed to increased commercial costs.

Onshore Drilling

(million €)

	Third Quarter		First nine months	
	2004	2005	2004	2005
Revenues	39	52	117	145
Operating expenses	(29)	(40)	(88)	(112)
Depreciation and amortisation	(5)	(6)	(14)	(14)
Contribution from operations (*)	5	6	15	19
New orders awarded	59	50	96	129

(*) Operating Income before general and administrative expenses

The backlog at 30th September 2005 (inclusive of the five-year contract on behalf of Agip KCO to be carried out using two client-owned rigs on D Block of the Kashagan field in Kazakhstan) amounted to 280 million euros of which 51 million are to be realised in fourth quarter 2005.

- Revenues for the first nine months 2005 show a 23.9% growth versus those of the same period 2004, mainly attributed to increased activities in South America.

- Contribution from operations in the first nine months 2005 increased by 4 million euros versus the same period last year, with a margin on revenues rising from 12.8% to 13%. This recovery in profitability is due to greater activity in South America.

- Average utilisation of rigs stood at 91% (76% in the third quarter 2004); rigs were located as follows: 13 in Peru, 8 in Saudi Arabia, 6 in Venezuela, 4 in Algeria, 2 in Italy, 2 in Kazakhstan, 1 in Egypt and 1 in Georgia.
  In addition, 5 third-party rigs were deployed in Peru and 1 in Kazakhstan by the joint-venture company SaiPar.
  Finally, 1 rig owned jointly with third parties operated in Kazakhstan.

Liquefied Natural Gas (L.N.G.)

(million €)

	Third Quarter		First nine months	
	2004	2005	2004	2005
Revenues	51	73	144	206
Operating expenses	(44)	(69)	(121)	(192)
Depreciation and amortisation	(1)	(1)	(2)	(3)
Contribution from operations (*)	6	3	21	11
New orders awarded	124	74	337	257

(*) *Operating Income before general and administrative expenses*

The backlog at 30th September 2005 amounted to 498 million euros, of which 111 million are to be realised in the fourth quarter 2005.

- Operations carried out mainly in China, Morocco and Belgium allowed revenues to grow to 206 million euros in the first nine months 2005, a 43.1% increase versus the same period the previous year.

- In the first nine months 2005, contribution from operations amounted to 11 million euros, or 5.3% of revenues (first nine months 2004: 21 million euros, or 14.6% of revenues). This contraction in margin is mainly attributed to the significant increase in cost of materials on projects under execution.

Maintenance Modification and Operation (M.M.O.)

(million €)

	Third Quarter		First nine months	
	2004	**2005**	**2004**	**2005**
Revenues	76	75	199	226
Operating expenses	(69)	(69)	(181)	(208)
Depreciation and amortisation	(2)	–	(4)	(1)
Contribution from operations (*)	5	6	14	17
New orders awarded	32	67	226	256

(*) Operating Income before general and administrative expenses

The backlog at 30th September 2005 amounted to 93 million euros, of which 39 million are to be realised in the fourth quarter 2005.

- Operations, carried out mainly in France, Italy, West Africa and Russia enabled revenues for the first nine months 2005 to total 226 million euros, a 27 million euro increase versus the same period 2004.

- Contribution from operations, in the first nine months 2005, amounted to 17 million euros, equal to 7.5% of revenues, versus 14 million euros, equal to 7% of revenues in the same period 2004, thanks to a recovery in operational efficiency in France and Russia.

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Publications
Third quarter report at 30th September 2005 (in English)
Relazione trimestrale al 30 settembre 2005 (in Italian)
Six-monthly report at 30th June 2005 (in English)
Relazione semestrale al 30 giugno 2005 (in Italian)
Second quarter report at 30th June 2005 (in English)
Relazione trimestrale al 30 giugno 2005 (in Italian)
First quarter report at 31st March 2005 (in English)
Relazione trimestrale al 31 marzo 2005 (in Italian)
Financial Report at 31st of December 2004 (in English)
Bilancio al 31 dicembre 2004 (in Italian)

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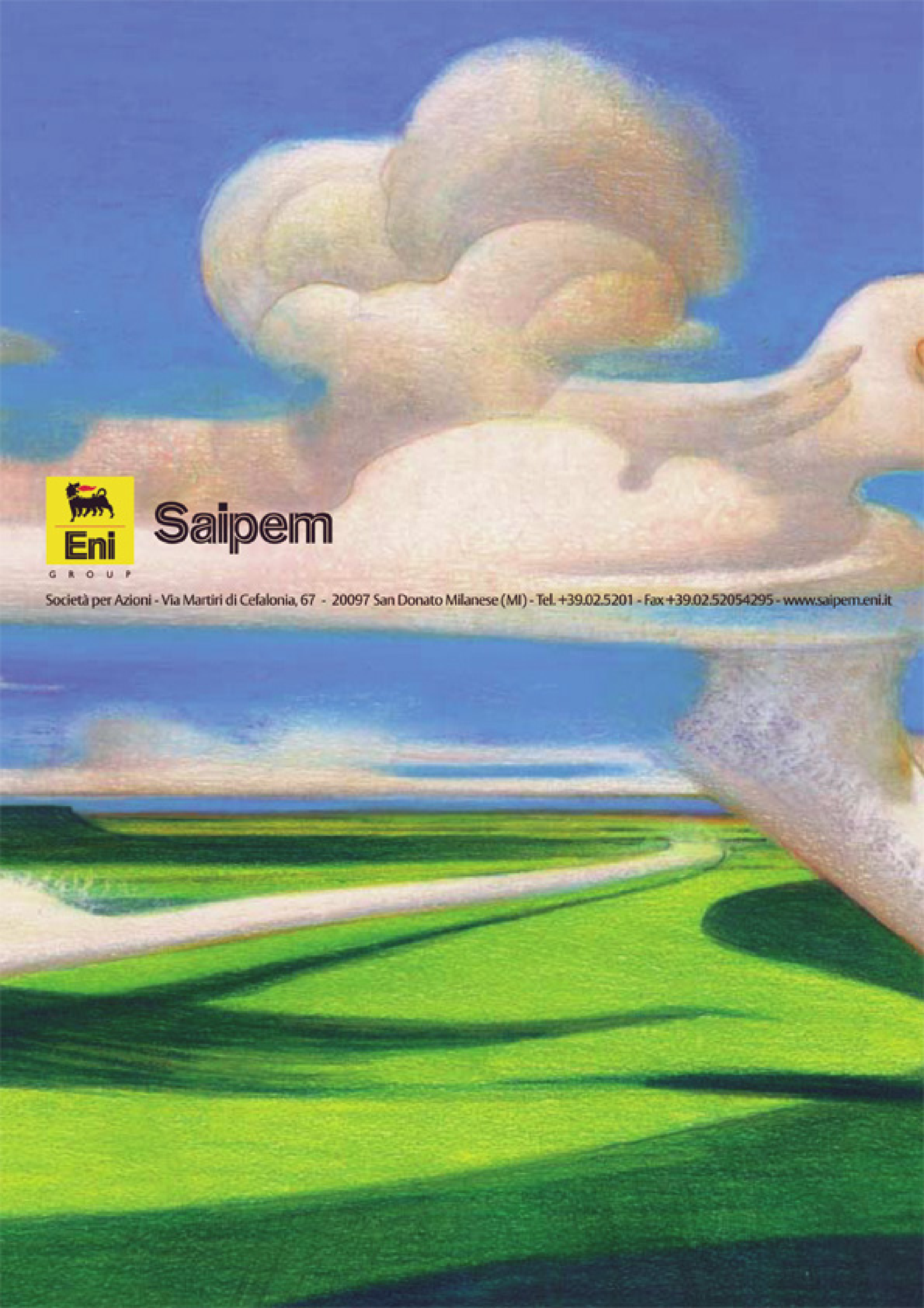

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