Saipem

# FINANCIAL REPORT

as at 31st December 2000

FINANCIAL REPORT 2000

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# CONSOLIDATED FINANCIAL STATEMENTS AND RELATED REPORTS AS OF AND FOR THE YEAR ENDED 31ST OF DECEMBER 2000

Eni GROUP

Saipem

(Translation from the Italian original which remains the definitive version)

■ Saipem is present in the following countries:

Europe: France, Italy, Luxembourg, Netherland, Norway, Portugal, Switzerland, Turkey, United Kingdom

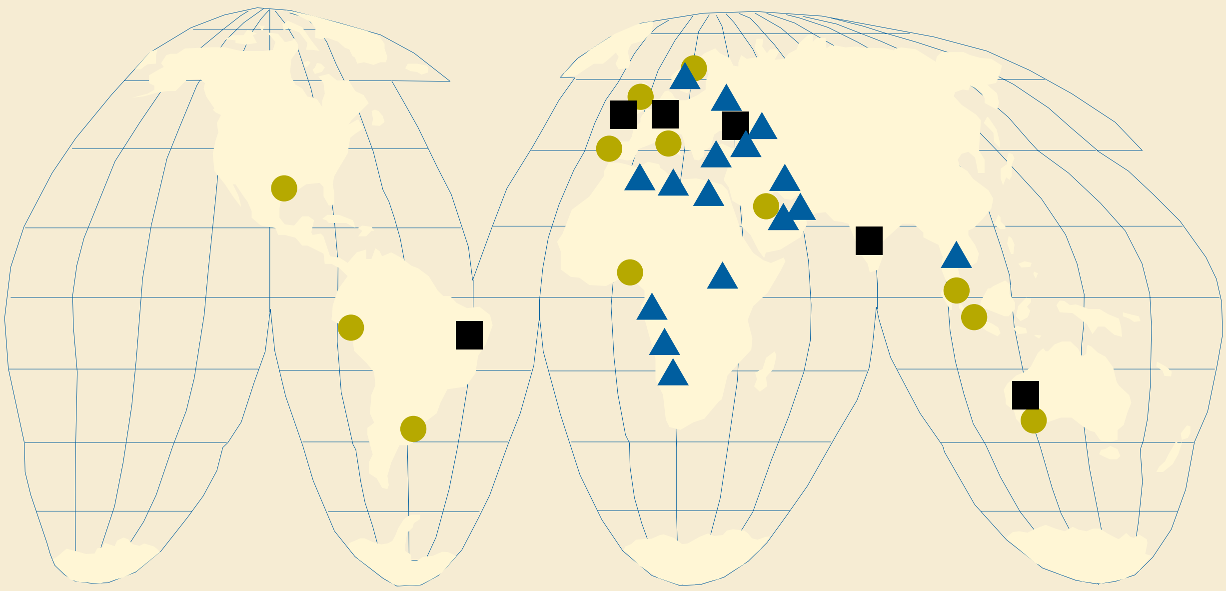
Americas: Argentina, Brazil, Peru, U.S.A.

C.S.I.: Georgia, Kazakhstan, Russia

Africa: Algeria, Angola, Congo, Egypt, Gabon, Libya, Nigeria, Sudan

Middle East: Abu Dhabi, Dubai, Iran, Oman, Qatar, Saudi Arabia, Sharjah

Far east and Oceania: Australia, India, Indonesia, Malaysia, Singapore, Thailand



● Subsidiaries

■ Joint Venture Companies

▲ Branches

# LETTER TO THE SHAREHOLDERS

To our Shareholders,
The high level of crude oil prices during the year 2000 encouraged a recovery in oil exploration and development activities on the part of the Oil Companies, whose total capital investment expenditure increased by an estimated 18% approximately during the year. This increase was not sufficient however to absorb the 1999 reduction, when investment fell by approximately 22%. During the year 2000 the Oil Companies' investments were concentrated on the Drilling sector, where estimated spending rose by approximately 23%, while the other sector of interest to our Company, the Construction sector, registered a further significant decrease, estimated at approximately 22%. This reduction was due principally to the delay in the development of large fields in deep waters off West Africa, Brazil and the Gulf of Mexico. These delays were determined by various factors, such as the technological complexity of the projects, a certain slowing down of the decisional processes within those Oil Companies involved in merger processes and, in certain cases, the differences of opinion between "majors" and "nationals" regarding the development solutions to be adopted, with the latter increasingly inclined to favour a growing use of local industries and infra-structures.

**Pietro Franco Tali**
*Chairman & C.E.O.*

In line with market trends, the Company registered a drop in revenues in the Construction sector and an increase in revenues in the Drilling sector, which also benefited during the second part of the year from the entry into operation of two of the new deep-water drilling vessels, Scarabeo 7 and Saipem 10000.

The positive performance of the Drilling sector, due to the utilisation of the new vessels and to the increase in both the utilisation levels and in the daily rates of the Group's fleet, together with the improved profitability of the Offshore Construction sector, enabled the Company to close the year with an increase in consolidated operating income of approximately 27% with respect to 1999. Consolidated net income for the year amounted to 80 million euros, approximately 16% higher than that of the previous year.

**Hugh O'Donnell**
*Managing Director & C.O.O.*

The Board of Directors, in accordance with the Company policy of distributing approximately one third of consolidated net income, will propose a dividend of Lire 120 per ordinary share and Lire 150 per savings share (In 1999: Lire 100 and Lire 130 respectively).

Almost all of the assets realised during the four-year investment programme from 1997-2000 came into operation during the year 2000; in addition to the abovementioned completion of the two deep-sea drilling vessels, during the year the "J"-lay system installed on Saipem 7000 was utilised for the first time ever in the Diana Hoover project, on behalf of Exxon Mobil in the Gulf of Mexico, to lay a sea line at a depth of approximately 1,500 metres. The work was successfully carried out to the customer's full satisfaction. The only significant investment currently in course regards the realisation, by Saibos, a company jointly owned and managed with Bouygues Offshore, of a special vessel for subsea development (Field Development Ship), the completion of which is expected in the next few months.

**Giancarlo Mazzone**
*Managing Director & C.F.O.*

Having completed the investment programme aimed at providing technologically advanced vessels for deep-water operations, the Company is now committed to consolidating and improving its market position through the broadening of its engineering and project management capabilities and the strengthening of its local presence in strategic areas.
The total volume of orders acquired was slightly higher than that of 1999, a year which benefited from the exceptional size and value of the Blue Stream contract. The only sector in which the total value of new orders obtained in the year 2000 was lower than those of 1999 was the Offshore construction sector. This is due not only to the effect of the acquisition in 1999 of the Blue Stream contract mentioned above, but also to the fact that the Company decided not to try to compete with the extremely aggressive tender prices quoted by their competitors for certain projects for high risk developments in deep waters. This decision is due both to the fact that the existing back lag guarantees the Company a high level of activity throughout the whole of the year 2001 and also for part of the year 2002 and to the fact that we expect to be able to increase our backlog even further in the year 2001, when, particularly in the second half of the year, a

DIRECTORS

***Chairman & Chief Executive Officer***

*Entrusted with all of the powers necessary for the ordinary and extra-ordinary administration of the Company's business operations, with the exception of actions specifically limited by Italian law or by the Company's Statute*

*Pietro Franco Tali (1)*

***Managing Director***

*Chief Operating Officer responsible for the operative and commercial activities of the Company's operations*

*Hugh O'Donnell (2)*

***Managing Director***

*Chief Financial Officer responsible for the administration, finance and control of the Company*

*Giancarlo Mazzone*

***Directors***

*Franco Bruni*
*Stefano Cao (3)*
*Paolo Andrea Colombo*
*Carlo Grande (4)*
*Roberto Jaquinto*
*Marco Mangiagalli*
*Alfredo Moroni (5)*
*Marco Reboa*

BOARD OF STATUTORY AUDITORS

***Chairman***

*Gaetano Troina*

***Statutory Auditors***

*Aldo Sanchini*
*Giorgio Viva*

***Alternate Statutory Auditors***

*Giovanni Battista Fregoso*
*Bruno Maier*

INDEPENDENT AUDITORS (6)

*KPMG S.p.A.*

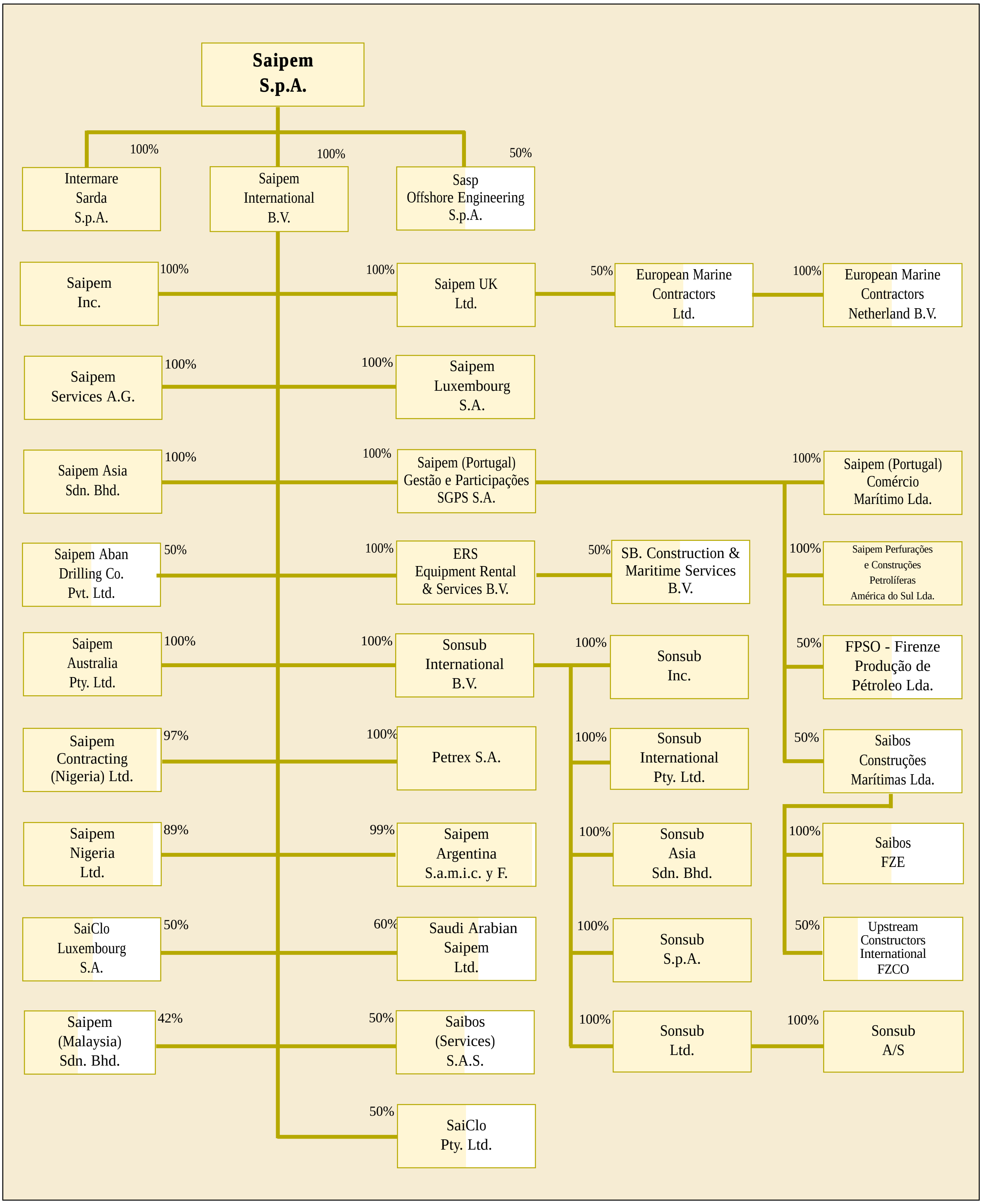
series of new contracts shall be assigned, which, due to the nature of the work involved, offer a competitive advantage to our Company.
The forecast for investment expenditure by the Oil Companies shows an estimated growth of approximately 20% for the year 2001, with a further improvement in market conditions in the Drilling sector and a marked recovery in the Construction sector. The Company should be able to take full advantage of the improved market situation, offering its customers the state-of-the-art technologically advanced vessels and equipment realised as a result of our investment programme during recent years. A particular contribution to the activity volumes and economic results in 2001 is expected from the Blue Stream project, for which we expect to complete the laying during the year, in depths of up to 2,150 metres, of one of the two sea line for the transportation of gas from Russia to Turkey across the Black Sea.

The order backlog, together with the further growth in demand expected in the Drilling market and the expected recovery in the Construction market, lead us, at present, to expect a significant increase in activity levels and a marked improvement in economic results for the year 2001.

On behalf of the Board of Directors,

Pietro Franco Tali
(Chairman & C.E.O.)

*(1) Co-opted as Director in replacement of Alfredo Moroni and appointed as Chairman during the Board of Directors' Meeting held on 24th November 2000. Appointed as Chairman at the Shareholders' Meeting of 30th January 2001.*
*(2) Co-opted as Director in replacement of Carlo Grande and appointed Managing Director during the Board of Directors' Meeting held on 21st December 2000. Appointed as Director by the Shareholders' Meeting of 30th January 2001 and appointed Chief Operating Officer during the Board of Directors' Meeting held on 2nd February 2001.*
*(3) Resigned from the position of Chairman as from 24th November 2000.*
*(4) Resigned as from 14th December 2000.*
*(5) Resigned as from 24th November 2000.*
*(6) Appointed by the Shareholders' Meeting of 16th April 1998 for the three-year period from 1998 to 2000.*


Saipem S.p.A.
100%
Intermare Sarda S.p.A.
100%
Saipem International B.V.
50%
Sasp Offshore Engineering S.p.A.
100%
Saipem Inc.
100%
Saipem UK Ltd.
50%
European Marine Contractors Ltd.
100%
European Marine Contractors Netherland B.V.
100%
Saipem Services A.G.
100%
Saipem Luxembourg S.A.
100%
Saipem Asia Sdn. Bhd.
100%
Saipem (Portugal) Gestão e Participações SGPS S.A.
100%
Saipem (Portugal) Comércio Marítimo Lda.
50%
Saipem Aban Drilling Co. Pvt. Ltd.
100%
ERS Equipment Rental & Services B.V.
50%
SB. Construction & Maritime Services B.V.
100%
Saipem Perfurações e Construções Petrolíferas América do Sul Lda.
100%
Saipem Australia Pty. Ltd.
100%
Sonsub International B.V.
100%
Sonsub Inc.
50%
FPSO - Firenze Produção de Pétroleo Lda.
97%
Saipem Contracting (Nigeria) Ltd.
100%
Petrex S.A.
100%
Sonsub International Pty. Ltd.
50%
Saibos Construções Marítimas Lda.
89%
Saipem Nigeria Ltd.
99%
Saipem Argentina S.a.m.i.c. y F.
100%
Sonsub Asia Sdn. Bhd.
100%
Saibos FZE
50%
SaiClo Luxembourg S.A.
60%
Saudi Arabian Saipem Ltd.
100%
Sonsub S.p.A.
50%
Upstream Constructors International FZCO
42%
Saipem (Malaysia) Sdn. Bhd.
50%
Saibos (Services) S.A.S.
100%
Sonsub Ltd.
100%
Sonsub A/S
50%
SaiClo Pty. Ltd.

# REPORT OF THE DIRECTORS

# SAIPEM S.p.A. SHARE PERFORMANCE

The value of Saipem S.p.A. ordinary shares increased significantly on the Milan Stock Exchange during the year 2000 (+65.2%), rising from 3.59 euros at the beginning of the year to 5.93 euros at the year end.
The performance of the Saipem shares showed a steady and progressive recovery from the beginning of March onwards, driven by the belief that the oil service companies sector would benefit in the medium term from the recovery in investments by the Oil Companies, deriving from and sustained by the high level of crude oil prices.
Therefore the Saipem share price, which had remained relatively stable from the end of December 1999 up until the end of February 2000, registered a constant growth up until September 2000, when the share reached its all-time maximum quoted price of 7.19 euros per share. During the last quarter of the year, the drop in crude oil prices, together with a general re-dimensioning of the stock market, brought the share price down to more modest levels; during the first months of the new stock exchange year the quoted price returned to values of around 7 euros.
The quantities traded during the year amounted to approximately 376 million shares, against 426 million shares in 1999, for a total value of approximately 1,991 million euros, as opposed to 1,592 million euros in 1999.

As regards the savings shares, their performance during the year 2000 was substantially in line with that of the ordinary shares. The savings shares (convertible at par into ordinary shares), of which only a few hundred thousand remain in circulation, registered an increase in value of 65.7% during the year, rising from 3.50 euros at the end of 1999 to 5.80 euros at the end of 2000. The volume of shares traded during the year amounted to 2.25 million (1.1 million during 1999) for a total value of 12.1 million euros (4.5 million in 1999).

The volume of shares traded on the Paris Stock Exchange was relatively modest, with share prices in line with those registered on the Milan Stock Exchange.

## Principal Stock Exchange data and ratios

| | 31st of December 1996 | 31st of December 1997 | 31st of December 1998 | 31st of December 1999 | **31st of December 2000** |
|---|---|---|---|---|---|
| Share Capital (Lit.) | 400,000,000,000 | 400,000,000,000 | 440,000,000,000 | 440,237,300,000 | 440,237,300,000 |
| Number of ordinary shares | 398,233,482 | 398,233,482 | 438,233,482 | 439,064,782 | 439,689,282 |
| Number of savings shares | 1,766,518 | 1,766,518 | 1,766,518 | 1,172,518 | 548,018 |
| Market Capitalisation (in millions of euros) | 1,453 | 1,926 | 1,586 | 1,580 | 2,611 |
| Gross dividend per share | | | | | |
| - ordinary shares (euros) | 0.07 | 0.08 | 0.08 | 0.0516 | 0.062 |
| - savings shares (euros) | 0.09 | 0.09 | 0.10 | 0.0671 | 0.077 |
| Price earnings ratio (*) | | | | | |
| - Ordinary shares (Lit.) | 16.11 | 18.66 | 13.96 | 22.98 | 32.63 |
| - Savings shares (Lit.) | 9.04 | 15.33 | 13.90 | 22.43 | 31.92 |
| Price/cash flow ratio (*) | | | | | |
| - Ordinary shares (Lit.) | 8.81 | 10.60 | 7.58 | 9.37 | 12.08 |
| - Savings shares (Lit.) | 4.95 | 8.81 | 7.55 | 9.15 | 11.81 |

*(*) values relative to the consolidated financial statements*

## Share prices on the Milan Stock Exchange (amounts in euro currency)

| | 1996 | 1997 | 1998 | 1999 | **2000** |
|---|---|---|---|---|---|
| Ordinary shares | | | | | |
| Maximum | 4.09 | 5.59 | 6.08 | 4.34 | 7.19 |
| Minimum | 1.75 | 3.61 | 3.11 | 2.94 | 3.21 |
| Average | 3.12 | 4.50 | 4.51 | 3.79 | 5.43 |
| Year-end | 3.64 | 4.82 | 3.60 | 3.59 | 5.93 |
| Savings shares | | | | | |
| Maximum | 2.06 | 3.96 | 6.06 | 4.30 | 7.19 |
| Minimum | 1.04 | 1.91 | 3.19 | 3.30 | 3.30 |
| Average | 1.59 | 2.87 | 4.33 | 3.77 | 5.43 |
| Year-end | 2.04 | 3.96 | 3.59 | 3.50 | 5.80 |

# OPERATING REVIEW

*Italy.*
*Drilling rig.*

## NEW CONTRACTS AND BACKLOG

**Saipem Group - Contracts awarded during the year ended on 31st of December 2000**

(Millions of euros)

| | 1999 | | 2000 | |
|---|---|---|---|---|
| | Amount | % | **Amount** | **%** |
| Saipem S.p.A. | 1,190 | 75% | 1,023 | 63% |
| Other Group companies | 401 | 25% | 604 | 37% |
| **Total** | **1,591** | **100%** | **1,627** | **100%** |
| Offshore Construction | 1,219 | 76% | 601 | 37% |
| Offshore Drilling and Floating Production | 43 | 3% | 206 | 12% |
| Onshore Drilling | 64 | 4% | 190 | 12% |
| Onshore Construction | 265 | 17% | 630 | 39% |
| **Total** | **1,591** | **100%** | **1,627** | **100%** |
| Italy | 131 | 8% | 25 | 2% |
| Abroad | 1,460 | 92% | 1.602 | 98% |
| **Total** | **1,591** | **100%** | **1,627** | **100%** |
| Eni Group | 157 | 10% | 215 | 13% |
| Third parties | 1,434 | 90% | 1.412 | 87% |
| **Total** | **1,591** | **100%** | **1,627** | **100%** |

The Group companies were awarded new contracts for a total value of 1,627 million euros (1,591 million euros in 1999).
Of the total contracts awarded during the year, 37% related to Offshore Construction activities, 12% to Offshore Drilling and Floating Production, 12% to Onshore Drilling and the remaining 39% to Onshore Construction. Foreign contracts represented 98% of the total; contracts acquired from Eni Group companies represented 13 % of the total. Finally, orders awarded to the parent company Saipem S.p.A. represented 63% of the total new contracts acquired during the year.

**Saipem Group - Backlog as of 31st of December 2000**

(Millions of euros)

| | 1999 | | 2000 | |
|---|---|---|---|---|
| | Amount | % | **Amount** | **%** |
| Saipem S.p.A. | 2,034 | 79% | 2,022 | 77% |
| Other Group companies | 554 | 21% | 608 | 23% |
| **Total** | **2,588** | **100%** | **2,630** | **100%** |
| Offshore Construction | 1,363 | 53% | 1,312 | 50% |
| Offshore Drilling and Floating Production | 622 | 24% | 582 | 22% |
| Onshore Drilling | 66 | 2% | 127 | 5% |
| Onshore Construction | 257 | 10% | 609 | 23% |
| Infrastructure | 280 | 11% | - | -% |
| **Total** | **2,588** | **100%** | **2,630** | **100%** |
| Italy | 531 | 21% | 134 | 5% |
| Abroad | 2,057 | 79% | 2,496 | 95% |
| **Total** | **2,588** | **100%** | **2,630** | **100%** |
| Eni Group | 616 | 24% | 557 | 21% |
| Third parties | 1,972 | 76% | 2,073 | 79% |
| **Total** | **2,588** | **100%** | **2,630** | **100%** |

*Mediterranean Sea, Scarabeo 7.*
*Semi-submersible drilling rig.*

The order backlog amounted to 2,630 million euros at the year end, representing an increase of 2% with respect to 1999. It should be noted that the1999 figures included an amount of 280 million euros relative to Saipem's share in the Cepav Uno consortium, for the construction of the high-speed railway track from Milan to Bologna, sold during the year 2000 to the other consortium members as it was no longer considered strategic. As regards the analysis by activity sector, 50% is attributable to Offshore Construction, 22% to Offshore Drilling and Floating Production, 5% to Onshore Drilling and the remaining 23% to Onshore Construction.
The parent company Saipem S.p.A. has 77% of the total order backlog. Orders from foreign customers represent 95% of total orders, while orders from Eni group companies represent 21% of the total. The order backlog towards third parties includes the fees relative to the Blue Stream project.

## CAPITAL EXPENDITURE

During the year 2000 Saipem Group companies carried out investments in tangible and intangible fixed assets for a total value of 231 million euros (of which 40 million euros relative to Saipem S.p.A.), against 412 million euros (of which 34 million euros relative to Saipem S.p.A.) in 1999.

The investments realised during the year included the completion of new vessels for deep-sea drilling, which represent an important part of the four-year investment plan for 1997-2000 of more than one billion euros.

The table below shows an analysis of the investments carried out during the year:

(Millions of euros)

| | 1999 | **2000** |
|---|---|---|
| Saipem S.p.A. | 34 | 40 |
| Other Group companies | 378 | 191 |
| **Total** | **412** | **231** |
| | | |
| Offshore Construction | 160 | 73 |
| Offshore Drilling and Floating Production | 221 | 127 |
| Onshore Drilling | 9 | 14 |
| Onshore Construction | 6 | 4 |
| Others | 16 | 13 |
| **Total** | **412** | **231** |

*Gulf of Mexico, Saipem 7000. Laying phase.*

The investments relative to the individual activity sectors are described in detail in the relative paragraphs below.
Other investments represent investments carried out at head and other offices and relate mainly to the realisation, which is still in course, of the new integrated information system for the entire Group.
Analysing the various individual sectors:

OFFSHORE CONSTRUCTION

| | 1996 | 1997 | 1998 | 1999 | **2000** |
|---|---|---|---|---|---|
| **Pipelines laid (km)** | | | | | |
| - Italy | 45 | 83 | 191 | 64 | 73 |
| - Abroad | 759 | 1.527 | 1.818 | 915 | 203 |
| **Total km** | **804** | **1.,610** | **2,009** | **979** | **276** |
| Structures installed (tons) | | | | | |
| - Italy | 50 | 8.680 | 4,036 | 4.601 | 17,793 |
| - Abroad | 97,090 | 100,065 | 61,295 | 106,563 | 39,294 |
| **Total tons** | **97,140** | **108,745** | **65,331** | **111,164** | **57,087** |

## General information

The Saipem Group, due to the technologically advanced vessels upon which the Group has concentrated its growth and development strategy, is one of the world leaders in the Offshore Construction sector, both as regards its traditional activities, consisting of the laying of sea lines and the installation of fixed platforms, and as regards, in particular, the high technology sector relative to the ultra deep water sector.
Of the fleet using the most advanced state-of-the-art equipment and technology that Saipem operates, the most important are; Saipem 7000, with it’s dynamic positioning capability, a lifting capacity of 14,000 tons and its ultra deep water “J-lay” system, capable of sustaining weights of up to a total of 4,500 tons during the laying process. This vessel, which has successfully completed a contract in the Gulf of Mexico during which the system was used for the first time in its current “J-lay” form, has been prepared for its next important assignment in the realisation of the Blue Steam project. Other vessels include the Castoro Sei, used for the laying of large diameter sea lines. Saipem also boasts a strong presence in the rapidly expanding deep water market, using highly sophisticated and technologically advanced equipment, such as remotely controlled subsea vehicles and especially equipped robots (ROV) to carry out complex work on pipelines in deep water.
Group companies active in the Offshore Construction sector, in addition to the parent company, include: Saipem U.K., Saipem Inc., European Marine Contractors (jointly owned and managed with Brown & Root), Saibos Construções Maritimas (jointly owned and managed with Bouygues Offshore), which is realising a new investment regarding a special vessel for the development of sub sea fields in ultra deep water (Field Development Ship), Saipem Malaysia, Saipem Asia, Saipem Luxembourg, Saipem (Portugal) Comércio Marítimo Ltd, Sonsub, SaiClo (jointly owned and managed with the Australian company Clough), SASP Offshore Engineering (jointly owned and managed with Snamprogetti), and Intermare Sarda.

## Market conditions

Despite the high prices reached by crude oil, the Offshore Construction market registered a further fall in activity levels during the year 2000.
Nevertheless, signs of recovery were evident during the second half of the year, even if these were weak and were concentrated in certain areas only. In particular, several deep-sea development projects were commenced in the Gulf of Mexico, and the Far East saw a recovery in its traditional activity of shallow water laying of pipelines. The important projects for the development of new deep-sea oilfields, expected to commence in West Africa and Brazil, have however, continued to suffer delays, due to their technological complexity and to questions related to local problems.
An improvement in the situation is expected to take place during the year 2001, followed by a full recovery in the year 2002.

## New contracts

The more significant new contracts awarded to the Group during the year related to the following projects:

- the Canyon Express project in the USA, on behalf of ELF, for the installation of two flow lines. The contract also involves the procurement and installation of umbelicals and of a methanol line. This contract was awarded to Saipem Inc.;
- the Cakerawala EPIC (Engineering, Procurement, Installation and Commissioning) project on behalf of CTOC (Carigali – Triton Operating Company Sdn Bhd), in Thailand, for the realisation of three wellhead platforms, a compression platform, a central production platform, an accommodation unit, a sea line, two connecting pipelines between the platforms and a tank for the exportation of gas.
  The out of country activities of this contract were awarded to the consortium between Technip, Samsung and Saipem S.p.A. whilst the activity within Thailand was awarded to Technip, Samsung, Saipem Malesia Sdn Bhd. consortium;
- the EPC (Engineering, Procurement and Construction) Mwafi Foukanda project in Congo, on behalf of Agip Recherches Congo, relative to two platforms, with 1,400-ton decks. This contract was awarded to an Association composed of Intermare Sarda S.p.A., Sasp Offshore S.p.A. and Marino Rosetti S.p.A.;
- the Mwafi Foukanda project in Congo, on behalf of Agip Recherches Congo, for the installation of a platform and the laying of a sea line. This contract was awarded to Saibos Construções Maritimas Lda.;
- the Kvitebjorn project in Norway on behalf of STATOIL, involving the transport and installation of a platform with a drilling module. This contract was awarded to Saipem UK Ltd.;
- the Espoir Field Development project on behalf of Ranger Oil Côte d'Ivoire on the Ivory Coast, for the planning, construction, installation and commissioning of a platform with a 550-ton deck, a tripod at a depth of 120 metres and two sea lines. This contract was awarded to Saibos Construções Maritimas Lda.;
- phase II of the Ivana project in Croatia, on behalf of INAGIP, relative to the installation of the Ivana B, Ivana D and Ivana E platforms for a total weight of 1,035 tons and the relative connecting sea lines of varying diameter. This contract was awarded to the parent company Saipem S.p.A.;
- the Helang Field Development project on behalf of Nippon Oil in Malaysia, for the transport and installation of a production platform weighing 16,000 tons. This contract was awarded to Saipem Malesia Sdn Bhd.;
- on behalf of CEPSA (Compania Espanola de Petroleos S.A.), the Huelva Sealine project in Spain for the detailed engineering, supply of materials and the laying of a new sea line to replace the existing one. This contract was awarded to the parent company Saipem S.p.A.;
- the Jade EPC (Engineering, Procurement, Construction) project in the British sector of the North Sea, on behalf of Phillips, relative to a gas pipeline between the existing Jade and Judy platforms. This contract was awarded to European Marine Contractors Ltd..

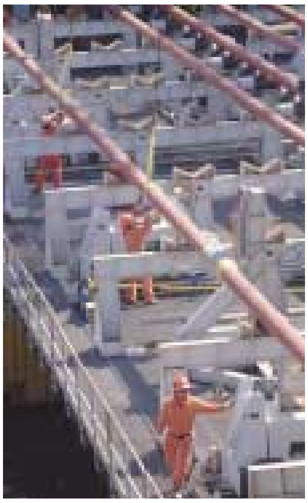
*Italy, Intermare Sarda.*
*Mwafi platform deck.*

## Capital expenditure

The more significant investments in this sector include the following:

- the ongoing realisation of a Field Development Ship by the company Saibos, jointly owned by Saipem and Bouygues Offshore, commissioned to the Korean shipyard Samsung. This is an advanced "multi-purpose" vessel, with dynamic positioning, capable of laying small diameter pipelines in ultra deep water using the "J-lay" method, and providing support for sub sea installation work. The completion of this vessel, the hull of which had already been completed at the end of December 2000, is expected within the end of May 2001;
- commencement of the investments necessary for the Blue Stream project, in relation to both offshore and onshore support activities. In particular, part of the equipment necessary for the realization of the quadruple joint in the Samsun base in Turkey has been realised and the design of the equipment for the underwater operations which shall take place in the year 2001 has been completed. A large part of the equipment and improvements necessary to the "J-Lay" system of the S7000 for the laying of pipes in ultra-deep water has also been developed;
- research activities continued towards the development of technologically advanced equipment for use in deep water and of new non-destructive welding control systems.

## Work performed



*Gulf of Mexico, Saipem 7000.*
*Pipe preparation for laying.*

**Blue Stream project**
The principal project on which the entire Group's attention was concentrated was the Blue Stream project.
This project regards the construction of a power plant, of the laying of two sealines for a total length of approximately 380 kilometres and the construction of the Beregovaya compression station on the Russian coast next to the Black Sea. The technological content of the project renders it one of the most advanced engineering feats in the world; in particular the pipelines will be laid using innovative techniques at a depth up to 2,150 metres, a level never before reached, in extremely complex/hostile environmental conditions. The pipeline will be laid by the vessel Saipem 7000 – a pipeline laying vessel with a laying tower of 4,500 tons, and a height of 135 metres with two cranes weighing 7,000 tons each – which has been specially modified in order to match its lifting capacity with the capacity to lay pipelines in ultra-deep water using the "J-lay" system. During the year the preliminary engineering phases were completed and activity has commenced relative to the preparation of the logistic area of Samsun in Turkey and the equipping of a compression plant in Russia. In addition, the special equipment for the underwater operations has been completed and the execution of underwater survey's along the pipeline route has been completed. The vessel Saipem 7000, after having completed the necessary modifications for this project, was employed in a series of trial lays in a Norwegian fjord. The Japanese consortium has already produced 40% of the pipes necessary for the construction of the first pipelines. The work completion is expected for the year 2002.

**Other work performed**
The other activities carried out during the year consisted of the laying of 276 kilometres of pipeline and plant installation of 57,087 tons. In particular the following works were performed:

**Saipem S.p.A.**
Within the context of the "Accordo Quadro" stipulated with the Agip Division of Eni the following work was carried out in the Adriatic Sea:

*Using the Derrick-Lay barge Castoro Due*
- the installation of the 530-ton deck of the Annalisa platform.

*Using the Derrick ship Pearl Marine*
- the installation of the Calpurnia jacket, with wellhead module, for a total weight of 2,266 tons;
- the installation of the Clara Est jacket, complete with wellhead module, for a total weight of 2,289 tons;
- the installation of the Calpurnia deck weighing 740 tons;
- the installation of the jacket, deck and cementation of the Clara Nord platform, for a total weight of 2,864 tons;
- the installation of the jacket, deck and bridge of the Barbara T2 Compression, for a total weight of 3,880 tons
- the installation of the Clara Est deck weighing 580 tons;
- the installation of the jacket, deck and bridge of the Cervia K Compression, for a total weight of 3,320 tons.

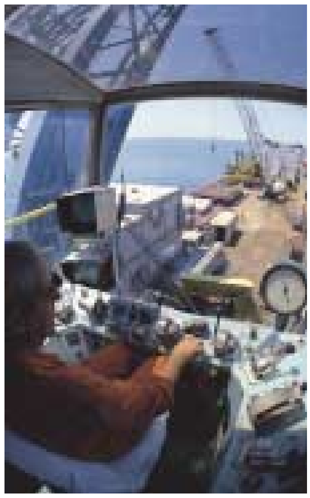
*Using the Derrick-Lay barge Crawler*
- the laying and testing of a sealine between the Clara Est and Calpurnia platforms;
- the laying and testing of a pipeline Calpurnia-Connection Tee Sea line Bonaccia;
- the laying and testing of a pipeline between the Cervia A and Arianna platforms;
- the laying and testing of a pipeline between the Cervia A and Cervia B platforms;
- the laying of a pipeline between the Camilla and Eleonora platforms;
- the laying and testing of a pipeline between the Clara Nord and Calpurnia platforms;
- the installation of the Naomi Pandora jacket, weighing 1,324 tons.

On behalf of the “Azienda Municipale Acquedotto e Trasporti (AMAT)”, as part of the Imperia project, civil works and assembly of components, valves and flow metres and pipe cleaning for water potability.

The Ivana offshore installation project was completed in the Croatian offshore on behalf of INA-AGIP (joint venture between Agip Division of Eni and INA Croazia); this involved the following activities:

*Using the Derrick-Lay barge Crawler*
- the installation of the Ivana E tripod weighing 275 tons.

*Using the Derrick-Lay barge Castoro Due*
- the laying and testing of a sealine between the Ivana E and Ivana A platforms;
- the laying and testing of a sealine between the Ivana B and Ivana E platforms;
- the laying and testing of a sealine between the Ivana D and Ivana E platforms;
- the installation of the Ivana B jacket weighing approximately 275 tons and relative deck weighing approximately 205 tons;
- the installation of the Ivana D deck weighing approximately 50 tons;
- the installation of the Ivana E deck weighing approximately 205 tons.


*Adriatic Sea, Italy. Crawler. Derrick-lay barge.*

The Huelva project was completed on behalf of the customer CEPSA- Spain, comprising the engineering and procurement for the replacement of 5 kilometres of existing oil crude sealine and connecting the refinery to the loading single buoy system. The new pipeline was laid next to the existing pipeline and connected thereto with 2 spools flanged at both ends. The vessel used for this was the barge Castoro Due.

The installation of the “Temsah” platform, situated approximately 80 miles offshore of Port Said (Egypt), was completed on behalf of the client Petrojet/Petrobel. The vessel used for this installation was the Derrick ship Pearl Marine, with the aid of cargo barges chartered from third party shipowners, which were used for the transport of the structures installed.

The engineering and procurement activities relative to the Gas Injection project for the Kitina platform were completed for the customer Agip Congo. This also involved the supply of engineering services and the purchase of various equipment and machinery such as: Gas Compressor, Flare Tip, etc.

The engineering and procurement activities relative to the construction of the Floating Storage Offloading (FSO) unit on behalf of Carigali-TriT. Operating Company (CTOC), within the context of the consortium between Saipem S.p.A., Technip S.A. and Samsung for the development of part of the Cakerawala project, are in the final completion phase. The overall project consists of the realisation, in the Joint Development Area (JDA) between Malaysia and Thailand, of a process platform, of three wellhead platforms, of a platform compression, of a Floating Storage and Offloading unit, and two clad pipelines and a carbon steel pipeline.

**Saipem (Malaysia) Sdn. Bhd.**
Project Management and Engineering activities have commenced relative to the Cakerawala Gas Field Development EPIC project, on behalf of Carigali-TriT. Operating Company (CTOC), within the context of the consortium between Saipem Asia with Technip (Malaysia) and Samsung, the scope of which is discussed above in the paragraph relative to Saipem S.p.A.. The offshore work will take place during 2001 and 2002 using the Derrick-lay barge Castoro 2, the Derrick lifting ship Pearl Marine and the launch-cargo barge S45.

Project Management and Engineering activity has commenced relative to the Helang project on behalf of Nippon Oil, which consists of the transport and installation of a platform off the coast of the Malaysian state of Sarawark ( North Borneo). The installation of the jacket will take place in 2001 using the Derrick lifting ship Pearl Marine, while the deck shall be installed in 2002 using the "float-over" procedure with the launch-cargo barge S45.

**Saipem U.K. Ltd.**

*The following projects were completed in the Norwegian sector of the North Sea:*

- the Oseberg Sor Project on behalf of Norsk Hydro; comprising the installation of a jacket weighing 6,000 tons at a depth of approximately 150 metres, a main module weighing 10,000 tons, a drilling module weighing 5,000 tons and a flare. Vessels utilised: the semi-submersible vessel S7000 and the barges S45 and Castoro XI;
- Phase 1 of the Huldra Project, on behalf of Statoil, comprising the installation of a jacket weighing approximately 5,550 tons at a depth of 100 metres. Vessels utilised: S7000 and S45. Phase 2 of this project, which involves the installation of the modules, is scheduled to take place in March 2001.

*North Sea.*
*Saipem 7000.*

*The following project was completed in the British sector of the North Sea:*

- the Captain UTM Project, on behalf of Texaco/Brown & Root, involving the installation of a template weighing approximately 1,700 tons at a sea depth of 150 metres. Vessel utilised: S7000.

**Saipem Inc.**

The Diana Hoover project relative to the engineering, procurement and installation of various modules and flow-lines in the Gulf of Mexico on behalf of Exxon has been terminated. The installation was carried out by Saipem Luxembourg.

The Petronius project was completed on behalf of Texaco, relative to the installation of various modules on the compliant tower in the Petronius oil field in the Gulf of Mexico. The installation was carried out by Saipem Luxembourg.

Engineering activities have commenced on behalf of Saibos for the laying of a sealine relative to the Espoir project for the customer Ranger Oil in the Ivory Coast.

**Saipem Luxembourg S.A.**

On behalf of Saipem Inc., as part of the Diana Hoover project, the installation of an anchorage system (piles, chains, anchors) for a total of 7,444 tons, of a floating cylindrical structure (DDCV) weighing 34,014 tons, of various modules and secondary structures for a total of 18,169 tons, the laying of a flow-line and the installation, using the "J"-lay method, of five deepwater risers. Vessels utilised: the semi-submersible vessel S7000 and the S45 launch/cargo barge for the transport of modules.

The Petronius project relative to the installation of various modules on the compliant tower in the Petronius field was carried out on behalf of Saipem Inc. in the Gulf of Mexico. Vessel used: S7000.

**Saipem (Portugal) Comércio Marítimo Lda.**

This company owns part of the Saipem fleet and co-ordinates the use thereof. The principal activity regarded the chartering of vessels to the various Group companies for use in their offshore construction activities.

**Saibos Construções Marítimas Lda.**

This company is jointly owned and managed between Saipem and Bouygues Offshore.

Work was carried out on the following projects using the derrick ship Castoro Otto:

- in South Africa on behalf of Dresser Kellog (in contract with Mossgas) the laying of an underwater pipeline connecting the Mossgas FA platform in Mossel Bay to the PLEM, installed by Saibos, was completed. The construction of the plen and spools and the construction of the platform end have been completed.

This company also worked on the following projects:
- the Foukanda and Mwafi project for the Client Agip in Congo.
  This contract consint in the installation of two similar platforms at a depth of 100 and 105 metres respectively, each with a jacket weighing 1,600 tons upon which a module of approximately 1,450 tons will be installed.
- the ELF Angola and Texaco Panama projects.
  These two projects were acquired at the end of November 2000 and relate to the laying of two sealines (one of which gunited and the other with anti-corrosive protection only) in Angolan waters.
- the Espoir project for the customer Ranger Oil in the Ivory Coast.
  This EPIC (Engineering, Procurement, Installation, Commissioning) contract involves the construction and installation of a 1,535 ton tripod at a depth of 120 metres, the construction and installation of a 580 ton module and, finally, the laying of a pipeline with onshore approach through horizontal drilling.
- the Blue Stream project on behalf of Saipem S.p.A..
  The vessel Castoro 8 is scheduled to be in the Black Sea at the beginning of July 2001 in order to prepare the onshore approaches of the 24” sealines which shall later be taken up by the semi-submersible vessel S7000 which will lay them across the whole length of the Black Sea.


*Saibos FDS.*
*Field Development Ship.*

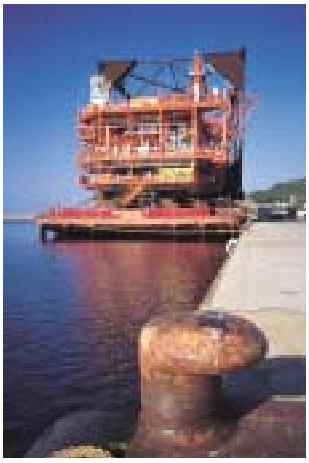
Work was carried out on the following projects using the SB 230 barge:
- the Rio de la Plata project for the customer British Gas in Argentina and Uruguay.
  This contract involves the supply and laying of an underwater pipeline across the Rio de la Plata river with the onshore approach on both the Argentinean and the Uruguayan shores.

As regards the activities which shall entail the use of the vessel for the development of underwater fields ( FDS), still in construction, work was carried out for :
- the Canyon Express project, sub-contracted from Saipem Inc., for the customer ELF Inc. in the USA.
  This project will involve the laying, by the FDS, of two parallel pipes in seas reaching a maximum depth of 2,200 metres.
- the Girassol project, sub-contracted from BOS for the customer EEA in Angola.
  The scope of the FDS’ work regards the laying of the export lines in “W” configuration from the floating production system (FPSO) to the CALM buoy. In addition it shall involve the installation of various flexible pipes connecting the FPSO to the head of the three Riser-Towers (a bundle of vertical risers hinged on a head of 1,500 metres seabottom with a floating element which holds the tower head at approximately 50 metres under the water level), with underwater links. Finally umbelicals will be installed from the three Riser-Towers heads to the well heads on the sea-bed (1,500 metres).

**European Marine Contractors Ltd.**
This company, which is jointly owned and managed with Brown & Root, carried out the following activities:

*In the North Sea, using the vessel Castoro Sei:*
- the completion of the Snorre 2 project on behalf of Saga Petroleum relative to the laying of two pipelines in the Norwegian sector;
- the completion of the Piper Claymore Spur Replacement project for ELF, comprising the engineering, supply and laying of a pipeline in the British sector;
- the completion of the Texaco project for Erskine comprising the laying, filling in and testing of a pipeline in the British sector;
- the engineering and procurement activities of the Jade project for Phillips Petroleum Co UK Ltd., comprising the engineering, supply, laying, filling in and testing of a pipeline in the British sector. This project shall be completed within the end of the year 2001;
- the engineering activities of the Norsk Hydro Vesterled project for the laying of a pipeline.

*In the Gulf of Mexico:*
- the execution of the EPC 28 project on behalf of Pemex, comprising the engineering, supply, laying, burying in and testing of various pipelines. This project is being carried out in collaboration with the company Commisa and shall be completed within the summer of 2001 with the laying barge Castoro 10 and the dive support vessel Bar Protector;
- the Flotel contract: the barge Semac 1 was utilised for a period of approximately six months as accommodation vessel during the commissioning of platform modules for the Pemex/Commisa project in Mexico.


*Italy, Intermare Sarda.
Calpurnia platform deck.*

**Intermare Sarda S.p.A.**

The more important construction activities carried out during the year 2000 were the following:
- the offshore Hook Up and Commissioning of the Annalisa platform was completed in the Adriatic Sea, on behalf of the Agip Division of Eni;
- the following structures were completed, loaded and transported to the installation site in the Adriatic Sea as part of the Clara Complex project:
  - the jacket and deck of the Clara Est platform with piles, conductors and wellhead module (2,800 tons);
  - the jacket of the Clara Nord platform (1,100 tons);
  - the deck of the Calpurnia platform (690 tons);
- the preliminary activities for the Foukanda and Mwafi platforms in Congo have been completed;
- certain sections of piles of the platform, for a total of 240 tons, have been pre-fabricated as part of the Naomi & Pandora project on behalf of the Agip Division of Eni;
- construction has commenced on behalf of Saipem S.p.A., of 6 Pipe Racks (for a total weight of 960 tons) to be completed and shipped to Turkey within the first half of 2001 as part of the Blue Stream project;
- the preliminary engineering activities commenced for the development of the offshore fields of OKONO and OKPOHO in Nigeria, on behalf of Agip Energy Nigeria, in joint venture with Saipem S.p.A., Saipem Nigeria, SASP, Rosetti and SBM.

**Offshore Construction vessels at 31st of December 2000**

| | |
|---|---|
| **Saipem S.p.A.** | |
| S45 | Launch barge, for structures of up to 20,000 tons |
| **Subsidiary companies** | |
| Saipem 7000 | Semi-submersible DP Derrick vessel for lifting structures, up to a maximum of 14,000 tons and equipped with a “J-lay” system capable of laying pipe in ultra deep-waters to a depth of up to 3,000 metres. |
| Pearl Marine | Derrick ship for lifting structures of up to 2,200 tons. |
| Crawler | Derrick-Lay barge suitable for laying pipe up to 60” diameter and lifting structures up to a maximum of 540 tons. |
| Castoro II | Derrick-Lay barge; suitable for laying pipe up to 60” diameter and lifting structures up to a maximum of 1,000 tons. |
| Castoro XI | Heavy-duty cargo barge. |
| Castoro 9 | Launch-cargo barge, for structures of up to 5,000 tons. |
| S42 | Launch-cargo barge, for structures of up to 8,000 tons. |
| S44 | Launch-cargo barge, for structures of up to 30,000 tons. |
| Lifter 1 | Barge with a sheer leg crane capable of lifting up to 1,400 tons. |
| **Companies jointly owned and managed with third parties** | |
| Castoro 3 | Light weight cargo barge. |
| Castoro Sei | Semi-submersible pipe lay vessel for large diameter pipes in deep waters to a depth of up to 1,000 metres. |
| Castoro Otto | Mono-hull derrick lay ship suitable for laying pipes up to 60” diameter and lifting structures up to a maximum of 2,200 tons. |
| Castoro 10 | Trench barge for laying pipes up to 60” diameter and for laying pipes in shallow waters. |
| Bar 420 (Semac1) | Semi-submersible pipe lay vessel for laying large diameter pipes in deep waters. |
| Bar 331 | Trench barge for pipes up to 60” in diameter. |
| Bar Protector | Multi-purpose, dynamically positioned, dive support vessel. |
| Maxita | Multi-purpose, monohull DP crane vessel for the installation of under water structures, small diameter, rigid or flexible pipe and underwater cables. |
| Saibos 230 | Work barge, with a light lifting capacity and for the laying of pipe up to 20” diameter. |
| Saibos 931 | Launch-barge for jackets up to 4,000 tons. |
| Saibos 103 | Lightweight cargo barge |

*West Africa, Castoro Otto. Derrick-lay ship.*

OFFSHORE DRILLING AND FLOATING PRODUCTION

| | 1996 | 1997 | 1998 | 1999 | **2000** |
|---|---|---|---|---|---|
| **Offshore Drilling** | | | | | |
| Metres drilled | | | | | |
| - Italy | 45,491 | - | - | - | 6,647 |
| - Abroad | 88,712 | 98,498 | 94,212 | 87,919 | 89,425 |
| **Total mt** | **134,203** | **98,498** | **94,212** | **87,919** | **96,072** |
| Wells drilled | | | | | |
| - Italy | 15 | - | - | - | 4 |
| - Abroad | 28 | 25 | 52 | 53 | 46 |
| **Total** | **43** | **25** | **52** | **53** | **50** |

*Saipem 10000.*
*Close-up of the drilling mast.*

## General information

In the Offshore Drilling and Floating Production sector, the Group operates in Italy, Northern Europe ( in particular in the Norwegian section of the North Sea), in West Africa, in North Africa and in India. During the year 2000, the Scarabeo 5, a fourth generation semi-submersible vessel, capable of working at depths of over 1,800 metres and drilling to a depth of 9,000 metres, was joined by two new vessels: the Scarabeo 7, a semi-submersible vessel, capable of operating in depths of over 1,200 metres, and the drillship Saipem 10000, capable of operating in dynamic positioning in depths of up to 3,000 metres. Apart from the parent company Saipem S.p.A., the other Group companies operating in this sector are: Saipem Nigeria, which presides over the strategic West Africa area from its head offices in Lagos, Petrex, which operates in South America, and Saipem (Portugal) Comércio Marítimo Ltd, which manages the drilling vessels.
In the floating production sector, the company FPSO - Firenze Produção de Petróleo (jointly owned and managed with Single Buoy Moorings) operates on behalf of the Agip Division of Eni, using a floating production system in the Aquila field in the South Adriatic Sea.

## Market overview

During the year 2000 the Offshore Drilling sector registered a significant overall recovery with respect to the serious crisis of 1999. The recovery of the sector was driven by the strong increase in activity in the Gulf of Mexico, where both the utilisation rates for shallow- water vessels (jack-up) and the daily charter rates showed dramatic increases. Furthermore, the market situation has also been steadily improving outside of the Gulf of Mexico and for vessels capable of operating at greater depths (semi-submersible and drilling vessels). Lastly, the “ultra deep water” segment, for those vessels capable of operating in depths of over 1,500 metres, has reached full utilisation, and the daily rates for this type of vessel have risen significantly. As a whole, the prospects for this sector for the year 2001 appear particularly positive, with an expected level of activity even higher than the record levels registered in 1998.

The Floating Production Systems market, related to the development of oil fields, registered a lower level of activity, as did the Offshore Construction sector, due to the negative effects of the continual delays in the commencement of projects. The prospects for 2001 appear more favourable than those of the year just ended.

## New contracts

The more significant new contracts acquired during the period relate to the following:
- a 12-month extension of the existing Saipem S.p.A. contract for the charter of the deep-sea drillship Saipem 10000, on behalf of Belbop, Agip Division of Eni, in Congo;
- a 12-month extension of the existing Saipem S.p.A. contract for the charter of the semi-submersible platform Scarabeo 5, on behalf of Norsk Hydro, in Norway;
- a 12-month extension of the existing Saipem S.p.A. contract for the charter of the semi-submersible platform Scarabeo 4, on behalf of Belbop, in Nigeria;

- a 12 month extension of the existing Saipem S.p.A. contract for the charter of the Perro Negro 5 jack up, on behalf of Belbop, in Nigeria;
- a six-month extension of the existing Saipem S.p.A. contract for the charter of Scarabeo 3 in Congo on behalf of Agip Recherches Congo;
- an extension of the existing Saipem S.p.A. contract for the charter of the Perro Negro 4 jack up for workover activities on behalf of Petrobel, in Egypt;
- the six-month charter of the Perro Negro 2 jack up on behalf of ELF in Nigeria. This contract was awarded to the parent company Saipem S.p.A..


*Saipem 10000.*
*Drilling mast.*

## Capital expenditure

The capital expenditure carried out in the Offshore Drilling and Floating Production sector were almost entirely related to new deep-sea drilling vessels, and, in particular:
- the completion of a fourth generation semi-submersible drilling platform Scarabeo 7, capable of operating in depths up to 1,200 metres and of drilling to a depth up to 7,600 metres (total value of this investment: 251 million euros). This vessel came into operation during the year and was utilised in both the Italian and Egyptian offshore. Further investment was commenced in December 2000, in order to increase the capacity of this vessel to operate in depths up to 1,500 metres, in order to fulfil, in the year 2001, the requirements of a new contract awarded in Mauritania;
- the completion of the new drillship Saipem 10000, capable of operating in dynamic positioning at up to 3,000 metres water depth and with a storage capacity of 140,000 barrels which will enable it to carry out long term production trials (total value of this investment: 307 million euros). This vessel came into operation during the year 2000, working firstly in the Italian offshore and then heading towards West Africa where it is expected to begin operations in the year 2001.

## Work performed

During the year 2000, 50 wells were drilled for approximately 96,072 metres.

### Saipem S.p.A.

Work was carried out off the coast of the following countries: Angola, Congo, Egypt, India, Italy, Libya, Nigeria and Norway, using all of the vessels available.

The semi-submersible drilling rig Scarabeo 3 completed its drilling activities off the coast of Congo on behalf of Agip Recherches Congo and, after undergoing routine maintenance work, it recommenced activity in the Nigerian offshore on behalf of NAE, with a contract for the drilling of one well plus the option for a further two wells. At the end of this contract it will be utilised, once more off the coast of Nigeria, on behalf of Canadian with a contract for the drilling of one well plus the option for a further two wells.

The semi-submersible drilling rig Scarabeo 4 continued its activity in the Nigerian offshore on behalf of Belbop. A new contract has been signed for one year plus a further optional year.

The semi-submersible drilling rig Scarabeo 5 continued drilling activity in the Norwegian offshore on behalf of Norsk Hydro. After undergoing scheduled maintenance work it resumed operations with an exploratory well in deep water. This contract has been extended up until November 2001, with the possibility of an option for a further year.

The semi-submersible drilling rig Scarabeo 6 terminated drilling activities in the Norwegian offshore on behalf of Statoil at the end of June, to continue work on behalf of Norsk Hydro as part of a four-year contract plus two options for a further two years each.

The semi-submersible drilling rig Scarabeo 7 commenced drilling activities in the Egyptian offshore on behalf of I.E.O.C.. It then drilled two wells in the Italian offshore on behalf of Agip Division of Eni and, at the end of the year, it was moved to Palermo for upgrading.

The drilling ship Saipem 10000, arrived in the Italian offshore from the Korean shipyard, drilled a well on behalf of Agip Division of Eni. It was later transferred to the Angolan offshore where it began the drilling of a well on behalf of Agip Angola, as part of a six-year contract with Agip Division of Eni.

The Perro Negro 2 jack up continued its activities in the Nigerian offshore on behalf of Elf Petroleum, in collaboration with the subsidiary company Saipem (Nigeria) Ltd..

*FPSO Firenze.*
*Floating Production Offloading System.*

The Perro Negro 3 jack up continued its workover and drilling activities in the Indian offshore on behalf of ONGC in sub-contract with Jindal. Work was interrupted for dry-docking and for the upgrading of the rig to the requirements of the new contract, which commenced in June for a duration of two years, plus possible extensions.

The Perro Negro 4 jack up continued workover activities in the Gulf of Suez on behalf of Petrobel. This contract was extended up until the end of July 2001.

The Perro Negro 5 jack up continued drilling operations in the Nigerian off-shore on behalf of Belbop, through the subsidiary company Saipem (Nigeria) Ltd. This contract has been renewed and involves the use of the platform for one year, plus two options of a further 12 months each.

Workover and maintenance work continued on the customer's plant on the fixed platforms owned by Agip Recherches Congo in Congo.

Maintenance work has continued on the fixed platforms DP3 and DP4 on behalf of Agip Name in Libya. The platforms and the three drilling rigs are owned by the customer.

**Saipem (Nigeria) Ltd.**
The Perro Negro 2 jack up operated on behalf of Elf Petroleum; the Perro Negro 5 jack up continued operations on behalf of Belbop with a contract for one year plus two options for a further 12 months each; the semi-submersible platform Scarabeo 4 operated on behalf of Belbop and, at the end of June, it began a new contract for one year plus a further optional year.
In addition, the semi-submersible platform Scarabeo 3 undertook a contract for the drilling of one well, plus the option for a second well, on behalf of NAE and, at the end of this contract, it shall continue to operate in the Nigerian offshore, on behalf of Canadian, with a contract for one well, plus the option for a further two wells.

**Petrex S.A.**
A total of 138 workover and pulling operations were carried out off the coast of Talara in North West Peru on behalf of Petrotech, using two packaged rigs owned by SPCP.

**Saipem (Portugal) Comércio Marítimo Lda.**
This company continued to charter drilling platforms to the parent company Saipem S.p.A..

**FPSO - Firenze Produção De Petróleo Lda.**
This unit continued regular production throughout the year of the wells Aquila 2 and 3 in 850 metres water depth.

## Utilisation of equipments

The Group's principal equipments were used for the following periods during the year:

| Vessel type | Days under contract | |
|---|---|---|
| Semi-submersible platform Scarabeo 3 (*) | 255 | a |
| Semi-submersible platform Scarabeo 4 (*) | 366 | |
| Semi-submersible platform Scarabeo 5 (**) | 351 | a |
| Semi-submersible platform Scarabeo 6 (*) | 366 | |
| Semi-submersible platform Scarabeo 7 (*) | 196 | b |
| Drill ship Saipem 10000 (*) | 207 | b |
| Jack up Perro Negro 2 (*) | 341 | a |
| Jack up Perro Negro 3 (*) | 288 | c |
| Jack up Perro Negro 4 (*) | 354 | a |
| Jack up Perro Negro 5 (*) | 366 | |
| FPSO – Firenze (***) | 366 | |

*(*) Equipment owned by subsidiary companies.*
*(**) Equipment leased by Saipem S.p.A..*
*(***) Equipment owned by jointly owned and managed companies.*
*a - For the rest of the year the vessel underwent routine maintenance.*
*b - New vessels which commenced activity during the year.*
*c - For the rest of the year the vessel underwent maintenance and upgrading.*

*Scarabeo 7.*
*Semi-submersible drilling rig.*

*Italy.*
*Drilling rig.*

ONSHORE DRILLING

| | 1996 | 1997 | 1998 | 1999 | **2000** |
|---|---|---|---|---|---|
| **Onshore drilling** | | | | | |
| Metres drilled | | | | | |
| - Italy | 58,442 | 51,719 | 38,879 | 13,752 | 16,536 |
| - Abroad | 100,829 | 125,828 | 128,199 | 48,945 | 130,050 |
| **Total mt** | **159,271** | **177,547** | **167,078** | **62,697** | **146,586** |
| Wells drilled | | | | | |
| - Italy | 13 | 13 | 23 | 6 | 4 |
| - Abroad | 29 | 30 | 55 | 24 | 40 |
| **Total** | **42** | **43** | **78** | **30** | **44** |

## General information

In the Onshore Drilling sector the Group operates in Italy, Algeria, Egypt, Nigeria, Kazakhstan, Georgia, Peru, Argentina, Bolivia, India, and Saudi Arabia through the parent company and also through Saipem Nigeria, Petrex, Sadco (an Indian company jointly owned and managed with Aban Drilling Co.), SaiPar (a company jointly owned and managed with Parker Drilling Co. operating in Kazakhstan), SaiFor (a company jointly owned and managed with Enafor to operate in Algerian territory), Saudi Arabian Saipem and Saipem Perfurações e Construções Petrolíferas América Do Sul. In addition, Saipem S.p.A., in consortium with Trevi S.p.A., carries out “slim hole cheap drilling” activities using technologically advanced equipment.

## Market overview

Onshore Drilling activity registered a significant recovery in all of the principal geographic areas during the year 2000.
The positive market situation, which affected mainly the volume of activity during the first half of the year, was also reflected by a significant increase in daily charter rates in the second half of the year.
The prospects for the year 2001 are particularly promising, with forecasted activity levels even higher than those achieved during the record two-year period 1997-98.
One of the more dynamic areas, apart from the USA and Latin America, which account for approximately 70% of total world expenditure (excluding Canada, Russia and China), is Central Asia, which is attracting growing interest on the part of the major Oil Companies for the high potential of the large deposits of hydrocarbon, brought to light by important recent discoveries.

## New contracts

The more significant contracts acquired during the year relate to the following work:
- the charter of six rigs for the development of the Karachaganak field in Kazakhstan, on behalf of KPO BV (Karachaganak Petroleum Operating), Joint Company between British Gas, Eni, Texaco and Lukoil. This contract, for a three-year duration plus three optional years, was awarded to SaiPar Drilling Company BV (company jointly owned and managed between Saipem and Parker Drilling);
- the charter of two rigs in Italy on behalf of the Agip Division of Eni. The contracts were awarded to Saipem S.p.A.;
- the charter of two rigs in Nigeria for a total of 13 months, on behalf of Nigerian Agip Oil Company. The contracts were awarded to Saipem S.p.A.;
- the charter of a rig for 12 months on behalf of ELF, in Nigeria. This contract was awarded to Saipem S.p.A.;
- the charter, for four months, of a rig in Bolivia, on behalf of Intergas. This contract was awarded to Petrex SA;
- the charter of a rigs on behalf of ORYX, in Algeria. This contract was awarded to Saipem S.p.A..

## Capital expenditure

The investments carried out in the Onshore Drilling sector relate almost entirely to the equipping and fitting out of a rig destined for new drilling activity in Saudi Arabia on behalf of Aramco and to the purchase of equipment necessary for new contracts acquired in the Po Valley (Italy) and in Kazakhstan.

## Work performed

No. 44 wells were drilled for a total of approximately 146,586 metres.

### Saipem S.p.A.

Work was carried out in Italy, Algeria, Egypt, Georgia, Nigeria, Kazakhstan and Saudi Arabia using 14 rigs.
Onshore drilling activity was carried out in Italy on behalf of Agip Division of Eni, utilising 4 rigs, 3 of which for deep wells drilling and the other of medium/high capability.
In particular:

- a deep wells rig has finished drilling a well in the Italian province of Novara and is drilling another well in the same province for the same customer;
- a deep wells rig continued drilling activity in the Italian province of Novara. On the completion of this well the company shall begin work on a new contract, also on behalf of the Agip Division of Eni, for the duration of one year plus two options for a further 12 months each;
- a deep wells rig is currently undergoing transfer and assembly in order to commence drilling activities in the Italian province of Pavia, with a contract for one year and two options of one year each;
- a medium/high capability rig has completed the drilling of a well in the Italian province of Potenza and is drilling another well. The contract has been extended up until the end of November 2001.

*Italy.*
*Erection of a drilling rig, close-up.*

A medium capability rig drilled two wells in Algeria on behalf of LL&E Algeria Ltd. and, after a brief pause, drilled another well on behalf of ORYX; in November a contract was signed which entails the use of this rig for the drilling of a well on behalf of BHP Petroleum, with the option for a second well, to be commenced at the beginning of 2001; another medium deep rig completed a well on behalf of Petrocanada and subsequently recommenced work on behalf of Agip Algeria Exploration B.V.; a third medium capability rig operated on behalf of Groupement Sonatrach-Agip.

In Egypt a medium capability rig has completed work on behalf of Alliance and has recommenced operations on behalf of Petrobel.

Onshore drilling was carried out in Nigeria in collaboration with Saipem (Nigeria) Ltd. using three rigs. More specific detail is given in the note relative to this subsidiary.
Workover activities continued in the province of Uralsk in Kazakhstan on behalf of Karachaganak Petroleum Operating (K.P.O.). One of the rigs used in these activities has been hired from the company Kazburgas and another is owned by the joint venture between Saipem Services A.G. and the US company Nabors. At the year end the first rigs had completed operations while the second is still working.

A medium/high capability rig has finished drilling the country's first ever well in Georgia on behalf of Frontera Eastern Georgia Ltd. At the year end the rig was placed on un-manned stand-by, awaiting further decision by the customer.

### Saipem (Nigeria) Ltd.

A deep well rig operated on behalf of Chevron and then continued working on behalf of Elf Petroleum with a contract for drilling four wells; a medium/high capability rig operated on behalf of NAOC with a contract for one year plus the option for a further 12 months; another medium/high capability rig has continued drilling operations on behalf of NAOC.

**Petrex S.A.**

A drilling rig, owned by Saipem Perfurações e Construções Petrolíferas América do Sul Lda. (SPCP), commenced work in block 1AB during the month of August on behalf of Pluspetrol, drilling two wells and carrying out a "re-entry" operation.

In September 2000 a drilling rig owned by SPCP began the transfer from the port of Andoas to that of Iquitos in order to commence drilling activity in the Peruvian Amazon forest on behalf of Repsol-YPF.

A drilling rig, owned by SPCP, and a second drilling rig, owned by Petrex, operated on behalf of Pluspetrol in the Trompetero area (Amazon forest).

Another drilling rig owned by Petrex drilled two wells in the Santa Cruz area in Bolivia, in association with Intergas Bolivia, on behalf of the Korean company Dong Won, through the Petrex Bolivia branch. At the year end, this rig was stacked in the Intergas base at Tita (Bolivia).

Finally, a drilling/workover rig, owned by SPCP, carried out workover activities in Bolivia, in association with Intergas Bolivia, and a "re-entry" operation on a production well in the Tartagal area of Northern Argentina on behalf of the Korean company Dong Won. At the year end this rig was stacked in the Santa Cruz base (Bolivia).

*Italy.*
*Hydraulic drilling rig.*

Furthermore, as regards the pulling and workover sector:

- 685 pulling and workover operations were carried out in the Talara area on behalf of Perez Companc;
- 76 workover operations were carried out in the Teniente Lopez area (Amazon forest), 25 of which on behalf of Occidental during the first half of the year and the remaining 51 on behalf of Pluspetrol during the second half of the year;
- 84 pulling and workover operations were carried out in the Trompetero area of the Amazon forest on behalf of Pluspetrol.

**Saipem Perfurações e Construções Petrolíferas América Do Sul Lda.**

This company owns 13 drilling and workover rigs, utilised in collaboration with Petrex in Peru. Further detail is given in the paragraph relative to Petrex S.A..

**SaiTre Consortium**

The SaiTre Consortium, between Saipem S.p.A. (51%) and Trevi S.p.A. (49%), has continued drilling wells medium/high deep on behalf of the Agip Divisione of Eni, using a technologically advanced hydraulic rig, with a one year contract which began in January 2000, with two options for a further 12 months each.

The consortium has also hired out another rig to Trevi S.p.A. for drilling activities in Venezuela, which are scheduled to continue throughout the whole of 2001.

**Saudi Arabian Saipem Ltd.**

A rig, owned by Saipem Aban Drilling Co. Pvt Ltd., has completed the transfer and assembly to the field and has commenced a contract for three years, plus a further optional year, on behalf of Saudi Aramco.

**Saipem Aban Drilling Co. Pvt. Ltd.**

This company, in which Saipem S.p.A. holds 50% of the entire share capital, exported two rigs:

- the first, to Saudi Arabia, where it was adapted to meet the requirements of the new contract, and from July onwards it was chartered to Saudi Arabian Saipem in sub-contract with Saipem S.p.A.;
- the second to Sharjah where it is stacked awaiting new contract work.

**Rig utilisation**

Onshore drilling activities entailed the utilisation of an average of 29 rigs owned by Group companies of which: 3 in Algeria, 1 in Argentina, 1 in Bolivia, 1 in Egypt, 1 in Georgia, 4 in Italy, 1 in Kazakhstan, 3 in Nigeria and 14 in Peru. In addition, 3 rigs owned in joint venture and 8 third party rigs were used during the year.

O N S H O R E   C O N S T R U C T I O N

| | 1996 | 1997 | 1998 | 1999 | **2000** |
|---|---|---|---|---|---|
| Onshore Construction | | | | | |
| Pipelines laid (km) | | | | | |
| - Italy | 181 | 38 | 162 | - | - |
| - Abroad | 1,596 | 1,183 | 711 | 1,303 | 483 |
| **Total km** | **1,777** | **1,221** | **873** | **1,303** | **483** |
| Industrial plant (tons) | | | | | |
| - Italy | - | 2,200 | - | - | - |
| - Abroad | 26,420 | 33,824 | 30,514 | 30,767 | 13,000 |
| **Total tons** | **26,420** | **36,024** | **30,514** | **30,767** | **13,000** |

## General information

The Saipem Group has historically been a leader in the Onshore Construction sector, completing difficult projects principally involving the laying of large diameter pipelines in harsh environmental conditions and the construction of petrochemical plants . The regions in which the Group consistently operates are Nigeria and the Arabian Peninsula. However, the Group is also currently engaged in the completion of certain projects in Sudan, Argentina and Thailand. Following an important new contract, the Group has significantly expanded its activities in Kazakhstan, a country of strategic interest for this and other activity sectors. In addition to the parent company (on its own or in association with other international operators), the Group companies Saipem Contracting Nigeria, Saudi Arabian Saipem, Saipem Malaysia, Saipem Asia and Saipem Argentina also operate in this sector; the company ERS Equipment Rental & Services manages the Group's equipments for onshore construction. Given the low prospects for activity in Italy, in November the "Onshore Construction - Italy" business segment was sold to another Italian operator.

*Middle East.*
*Laying of a pipe.*

## Market overview

This sector registered an overall decrease in activity levels during the year 2000, with signs of recovery towards the latter part of the year.

This recovery took the form of an increase in both projects under tender and new contracts awarded to the Group.

As regards the Pipeline Laying segment, the most dynamic areas were those of Central Asia, the Middle East and South East Asia.

The Plant Construction segment (refineries and petrochemical plant) is benefiting from the positive effects of the economic recovery taking place in developing countries; the most promising areas in this sense are South East Asia and, to a lesser extent, Latin America.

## New contracts

The more significant contracts awarded during the year regarded the following projects:

- the Karachaganak Development project in Kazakhstan, on behalf of KPO BV (Karachaganak Petroleum Operating), which entails the execution of all of the civil, mechanical infrastructure, electrical instrumentation, painting and insulation works related to the following facilities: two Gas Re-Injection units, Karachaganak Processing Complex, Infrastructures & Gathering Lines, a 650 kilometre Export Pipeline, pumping stations and terminal. This contract was awarded to the consortium comprised of Saipem S.p.A. and CCC (Consolidate Contractor Company);
- the Arzew pumping stations EPC (Engineering, Procurement, Construction) project in Algeria, on behalf of Sonatrach, for the realisation of six pumping stations and a terminal for the Haoudh El Hamra-Arzew pipeline. This contract was awarded to Saipem S.p.A. in association with Spie Capag;
- the Fahud – Sohar EPIC (Engineering, Procurement, Installation, Commissioning) project in Oman on behalf of Oman Gas Company, which entails the realisation of a pipeline which shall connect the industrial zone of Sohar with the Gas gathering at Fahud. The contract comprises the installation of 10 block valves and the laying of a fibre optic cable for the entire length of

the pipeline. The contract was awarded to the consortium comprised of the joint venture Saipem S.p.A./CCC (Consolidated Contractor Company) and Snamprogetti and Mitsubishi;
- the "Rehabilitation work" project on behalf of Aramco in Saudi Arabia, which entails the replacement of existing pipelines. This contract was awarded to Saudi Arabian Saipem Ltd..

## Capital expenditure

Capital expenditure in the Onshore Construction sector comprised purchases of equipment relative mainly to the construction of accommodation camps for the important new Karachaganak project in Kazakhstan; the other investments relate to the replacement and upgrading of the vessels and equipment necessary for the realisation of the other contracts acquired.

*Middle East.*
*Digging for the laying of a pipe.*

## Work performed

The Onshore Construction sector's activities mainly regarded the laying of 483 km long pipeline with different diameters and the installation of plant, 13,000 tons of weight. The must important operations carried out are summarised, by area, below.

### Saipem S.p.A.

In Kazakhstan,
mobilisation activities have commenced for the Karachaganak Project awarded by Karachaganak Petroleum Operating BV. in consortium (split liability) with Consolidated Contractors Int. Co.; the contract entails the construction of 2 gas re-injection units, 1 proceeding complex and a pumping station and terminal of 650 kilometres length.

In Oman,
engineering, procurement and mobilisation activities have commenced for the Fahud-Sohar Project, commissioned by the Oman Gas Company; this project shall be carried out by a consortium set up by Saipem, Consolidated Contractors Int. Co., Snamprogetti and Mitsubishi Co. and consists of the laying of a gas pipeline.

In Nigeria,
the re-conversion of a dehidratation station into an oil-pumping station has been completed near Ughelli on behalf of SPDC.
The laying and testing of the Obigbo project, relative to gas pipelines of varying diameter, has also been completed on behalf of SPDC.

Also for SPDC, four gas pipelines were laid in swampland for the Nembe project carried out in Joint Venture with Belfinger/Berger; only the marginal activities of testing and tie-ins remain to be carried out.

In Argentina,
The construction has been completed of plant for the MEGA project, carried out in Joint Venture with JGC and CPC. As part of the same project the laying of the pipeline has been completed; the system has been commissioned and the plant entered into production.

### Saipem Contracting (Nigeria) Ltd.

This company operated in Joint Venture with the parent company Saipem S.p.A. for the realisation of the contracts in Nigeria.

### Saudi Arabian Saipem Ltd.

The laying activities have been completed on behalf of Aramco and in Joint Venture with Techint International, relative to the Hawiyah project, which entails the laying of pipelines for the transport of gas and the reconversion from a crude line into a gasline.
Work also continued on behalf of Aramco for the Kuff project, which entails the link of new wells and the laying of gas gathering lines. This project is expected to last at least two years.
Work has also commenced on behalf of Aramco, to restore existing pipelines over a period of twelve months.
Work continued on the construction of pumping stations for the Shoaiba-Jeddah Water

Transmission System project on behalf of SWCC and in Joint Venture with Snamprogetti. The pipeline has been laid and part of the plant has entered into operation during the year.

**Saipem Asia Sdn. Bhd.**
Work was completed relative to the laying of the Ratchaburi/Wang Noi project, awarded in Joint Venture with Mitsui by PTT Thailand, comprising the laying of a pipeline and of the relative control and telecommunications systems.

**Onshore Construction equipment at 31st of December 2000**

| | Saipem S.p.A. | Saipem Group |
|---|---|---|
| Cranes from 10 to 150 tons | 59 | 93 |
| Backhoes | 29 | 101 |
| Sidebooms | 66 | 179 |
| Pay welders | 37 | 80 |
| Pay Loader and Wheeled Loaders | 10 | 46 |
| Trenchers | 2 | 2 |
| Dozers and Tracked Loaders | 21 | 79 |
| Motor Graders and Compacter Rollers | 9 | 37 |
| Rock Drills | - | 11 |
| Wheeled Tractors – various | 29 | 56 |
| Pipe Bending machinery | 18 | 34 |
| Cars, Off Road vehicles, Truck and Buses | 320 | 728 |
| Trailers, Semi-Trailers and Dollies | 32 | 153 |
| Pipe Boring / Pushing machine | 2 | 3 |
| Motorized and electro-welding machines | 779 | 1,059 |
| Water Pumps and Air Compressors | 123 | 271 |
| Power Generators | 99 | 214 |
| Camp facilities (beds) | 705 | 3,300 |


*Middle East.*
*Laying of a pipe.*

## INFRASTRUCTURE

This sector's activities were concentrated on the High Speed Rail Project on behalf of TAV (Treno Alta Velocità), for the construction of the Milan-Bologna section of the high-speed rail track. The contract was awarded to the Cepav 1 Consortium, in which Saipem held a share of 13.7%.
However this activity was no longer considered as being of strategic interest, and therefore, in October 2000, the vast majority of the Group's share (13.44%) was sold to the other consortium members, together with the relative share of the contract. The residual share maintained by the Group (0.26%) represents part of the contract already carried out prior to the sale, and therefore does not entail any future activity.

With the sale of its share in the Cepav 1 Consortium, Saipem has practically abandoned the Infrastructure activity sector. The remaining activities regard a 12% share in the Cepav 2 Consortium for the Milan-Verona section of the abovementioned rail track, together with the participation, in a marginal role, in the Sapro consortium charged with construction of the new courthouse in Pescara (in the final phase of construction) and awaiting loan finance in order to commence work on the construction of the juvenile courthouse at Sassari, in Sardinia; and in the Venezia Nuova consortium, for the protection of the Venetian Lagoon from exceptionally high tides and flooding. Liquidation procedures continued for the U.S.G. consortium and for the Società Consortile Sage. In addition, the Savico consortium also commenced liquidation procedures in December 2000.

Given the scarce importance of the activity carried out in this sector during the year and of that expected in future periods, as from the present financial statements, the Infrastructure activity sector is no longer shown separately and the sales volumes and margins generated by the remaining activities are included under the Onshore Construction sector.

# RESEARCH AND DEVELOPMENT

During the year 2000 Saipem continued its commitment to the development of distinctive and innovative ways to improve the Group's competitive position.
The total cost of projects carried out during the year amounted to 5 million euros, of which 1 million euros was charged to the income statement for the period, while the balance of 4 million euros, relative to the final realisation and proto-type phases of research projects, was capitalised as an increase in the value of the relative tangible fixed assets.

The more important projects realised during the year include the following:

*Italy.*
*Triale of the Carousel welding system.*

**Deep-sea laying technology**
- the "J-lay" system: designed and developed for the Blue Stream project, this innovative system installed on the vessel S7000 was used successfully in the Gulf of Mexico (in the Diana Hoover project) and has passed the operational trials off the Norwegian coast, where it laid a test pipeline comprised of pipes similar to those which will be used in the Blue Stream project;
- integration of the dynamic positioning: the prototype guidance system of the S7000 during the "J-laying" of underwater pipelines confirmed its operational validity as an advisory system able to guarantee a more efficient manoeuvring of the vessel during the critical operation of dynamic positioning;
- touchdown monitoring system: the sonar system capable of identifying the point of contact between the pipe and the sea-bed gave very reassuring results during the course of the Diana Hoover project; during the tests carried out off the Norwegian coast we also verified the system's capacity to provide useful information for assisted lay.
- non intrusive buckle (fault) detector: the use of the underwater pipeline as a radio wave reflector and the elaboration of the information received for diagnosis purposes has provided decisive confirmation of the possibility for developing a non-intrusive buckle detector; following the test period at Ravenna and on the S7000, construction will commence at the beginning of 2001 on the operative proto-type for the Blue Stream project.

**Welding technology and non-destructive testing**
- after an intense finalisation phase in simulations of the various conditions present in the Blue Stream project, the new welding system PRESTO, equipped with dual welding heads and integrated with the Carousel system, has passed the sea/offshore trials on the S7000; the configuration of three machines in simultaneous operation has significantly reduced the welding times;
- the development strategy for the welding systems in the Saipem Group in the short, medium and long term has now been defined: in addition to the inertial evolution of PRESTO, which is already undergoing modifications for "S-lay" laying activities, a substantial revision has commenced of the machine which is expected to represent the new welding system in medium term in addition to supporting future innovations in the welding process.

**Underwater intervention systems**
- the subsidiary company Sonsub has successfully concluded the demonstration phase of a diver-less repair system on behalf of Shell in the Gulf of Mexico; this system is based on the technology developed within the Saipem Group and adapted to the customer's specifications;
- Sonsub is continuing work on the construction of a system of critical equipment for the subsea operations involved in the Blue Stream project: the pipe recovery system (repairs during the laying) and the trenching system for rough seabottoms; both of these integrate with the "Innovator" vehicle designed by Sonsub;
- the new vehicle for inspection and cables burying called "Sedna" has been awarded a long term contract with AT&T on behalf of the consortium responsible for the maintenance of cables North Pacific CRABBS;
- the Brutus flowline connection system was used successfully in the Norne Heydrun project.

## Other projects

- the knowledge management system was significantly improved by the addition of characteristics which render it more efficient; the implementation in the Group's various operating conditions shall take place as from 2001;
- approaches: a new type of linear winch, rifting 200 tons, was developed after the 500 tons water-driver winch, which will be utilised in the Blue Stream project, giving maximum emphasis to the simplicity and reliability for use in inaccessible areas.

# HEALTH, SAFETY AND ENVIRONMENT

*Scarabeo 7.*
*Semi-submersible drilling rig.*

During the year 2000 Saipem has continued the implementation of its own HSE (Health, Safety and Environment) system, which began in previous years.
The activities carried out involved the entire corporate structure, with particular emphasis on activities in the work sites.
Some of the more important activities are summarised below:
- the implementation and improvement of the HSE documentation of the Saipem fleet;
- the Scarabeo 5 vessel was awarded the ISM (International Safety Management) certification; this certification also involved, for the first time ever, the certification of the "Vessel safety system " and of the company which manages it;
- the implementation of environmental monitoring:
  • monitoring of the discharge from internal combustion engines through the analytical measurement of the emission; in particular we measured the emission of CO2, NO2, SO2 and CO, substances in the immediate surroundings;
  • increase in the evaluation of the acoustic risk in offshore vessels and for maritime workers, in adherence of the new specifications contained in recent European legislation applicable to maritime workers (Labour Law No. 271 and 272/99);
  • monitoring of the acoustic impact on the environment of onshore drilling rigs, particularly of those rigs which are situated close to urban sites.

The results obtained enabled us to verify the complete respect of the legal limits of the values tested relative both to the emission of gas and to the acoustic impact of the drilling rigs;
- the completion of the new software to integrate the Gipsi-Safety system for monitoring the health and accident data of the Group's building and production sites;
- the holding of training programmes for offshore personnel in accordance with the requirements of international legislation. Fire-prevention training in accordance with DM 10.03.98;
- the opening at Bucharest in Romania, of a new decentralised HSE structure which provides, through specialised personnel, support for all of the necessary paperwork and training of personnel required on the Group's operational sites;
- revision of the company's Corporate Standards.

Despite the Group's ever increasing commitment towards HSE, the results for the year 2000 did not completely meet the targets proposed. In fact the accident frequency index of the Saipem Group shows a slight increase. Nevertheless, the Group received numerous formal and informal acknowledgements from its customers for the safety measures adopted on various operating projects.

# HUMAN RESOURCES

Saipem 10000.
The bridge.

Due to the nature of the activities undertaken by the Saipem Group, human resources must possess the following two special features:
- Adaptability, in order that activities can be performed either with the Group's own personnel, external temporary personnel or through sub-contractors;
- Flexibility, as the total number of internal and external personnel required varies according to the nature of the contracts undertaken.

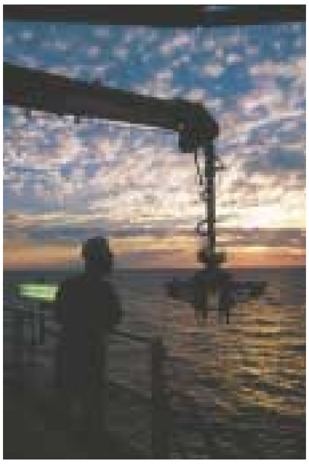
This situation renders the use of conventional ratios between the cost of personnel and the volume of activity, expressed in terms of revenues, meaningless.
In addition, the seasonable variability of our work volume and our reliance on foreign labour, and/or Italian personnel with temporary contracts, renders more appropriate the use of ratios based on yearly average headcount rather than the year-end headcount.
This having been said, the Group employed an average of 9,767 persons in the year 2000 (10,727 in 1999) of which 2,739 employed by Saipem S.p.A. (2,876 in the previous year).

| | Average workforce 1999 | **Average workforce 2000** |
|---|---:|---:|
| Saipem S.p.A.(**) | 2,876 | 2,739 |
| Other Group companies | 7,851 | 7,028 |
| | **10,727** | **9,767** |
| Offshore Construction | 2,579 | 2,084 |
| Offshore Drilling and Floating Production | 888 | 1,080 |
| Onshore Drilling | 1,509 | 1,679 |
| Onshore Construction | 5,065 | 4,241 |
| Infrastructure | 16 | 9 |
| Staff | 670 | 674 |
| **Total (*)** | **10,727** | **9,767** |
| Italian | 2,588 | 2,340 |
| Foreign | 8,139 | 7,427 |
| Italians - Permanent personnel | 2,366 | 2,136 |
| Italians - Temporary personnel | 222 | 204 |
| **Total** | **2,588** | **2,340** |

*(*) Including all consolidated companies. For those consolidated companies using the proportional method, a proportion equivalent to the consolidated percentage was used.*

*(**) Including personnel working for joint ventures, proportional to the participation ratio.*

The decrease in the average workforce during 2000 is due to the reduction in the volume of activity following the drop in investment by the Oil Companies, which persisted throughout the entire year, despite the recovery in crude oil prices.



*Saipem 10000.*
*Close-up of a crane.*

This policy of flexibility has enabled the Group to confront this situation through the reduction of its international personnel (-9%), and of the Italian temporary contract personnel (-8%).
An even greater reduction took place in Italian permanent personnel (230 resources) due in part to the sale of the business segment (the Cortemaggiore workshop, General Services, Onshore Construction activities- Italy).
The above reductions form part of a wide range of steps agreed with the Union organisations as part of the re-organisation programme which also involved the use of government subsidised temporary redundancies (CIGS) for 150 resources in the Onshore Construction sector, head office and logistics centres and of job sharing (Contratto di Solidarietà) for 203 resources in the Onshore Drilling sector.
The personnel selection programme has been carried out with a view to achieving a correct balance between Italian and foreign personnel, together with an optimal qualitative mix between university graduates and staff with high school diplomas. In particular, during the year 2000 the Group hired 41 graduates, 27 of whom with government subsidised training contracts (Contratto di Formazione e Lavoro) and 12 staff with high school diplomas, 3 of whom with government subsidised training contracts, representing a significant increase with respect to 1999 (8 graduates and 7 staff with high school diplomas).
In addition to the abovementioned agreements, which also entailed training activities aimed at professional retraining, incentives for early retirement and redundancy and the transfer of staff to other Eni group companies, agreement was reached with trade union representatives regarding the following:
- the application of the first phase of the CCNL Energy Classification system;
- the renewal of the bonus scheme linked to targets and results;
- the consolidation of the integrated social security for the Energy sector, with the extension thereof to fixed term and training contracts;
- the renewal of the national labour contract for Italian seagoing personnel.

A review of the Group training policy is underway, in order to render it more responsive to the Group's strategic requirements; in particular, emphasis has been placed on the objective of the personalisation and flexibility of training, thanks to the use of the new technological solutions available in the sector and to the potential offered by Internet.

Professional training programmes, in line with the Group's organisational and business requirements (mobility and international experience, customer orientation, flexibility and aptitude to change) integrated with new, more advanced training programmes, have been tailored both to the creation of polyvalent figures, and to the creation of an all-round professionalism, through the enrichment and the consolidation of the knowledge and expertise of the Group's employees.

As regards organisational problems, the analysis and improvement of corporate processes continued. The underlying objectives which were the drivers of the actions taken, were the optimisation of the functioning of processes with respect to the organisational models for a group organised through a network of companies and the restructuring thereof, in order to take full advantage of the opportunities presented by the new corporate information system SAP R/3.

## INFORMATION SYSTEM

The continuation of the implementation of SAP R/3, with the coming into operation in Saipem S.p.A. of the applications module for procurement (MM), the development of the "Kernel" model for the extension of the applications already in use in Saipem S.p.A. to associated companies and branches, together with the analysis and development of management control (CO) and project control (PS) modules, has represented a significant step forwards towards the aim of providing the entire Saipem Group with an integrated information system. The commencement of the human resources, material tracking and data warehouse projects and the experiments in e-procurement complete the picture of the steps taken during the year, designed to take advantage of the opportunities offered by the technological development of information and telecommunications technology in order to improve the Group's level of business competitiveness.

# COMMENTS ON THE FINANCIAL AND ECONOMIC RESULTS

## RESULTS OF OPERATIONS

**Saipem Group - Reclassified income statement**

(Millions of euros)

| | 1998 | 1999 | 2000 |
|---|---|---|---|
| **Operating revenues** | **1.705** | **1.467** | **1.310** |
| Other income and revenues | 32 | 18 | 16 |
| Purchases, services and other costs | (1.162) | (978) | (776) |
| Payroll and related costs | (322) | (302) | (281) |
| **Gross operating income** | **253** | **205** | **269** |
| Amortisation, depreciation and write-downs | (96) | (100) | (136) |
| **Operating income** | **157** | **105** | **133** |
| Financial expenses, net | (9) | (12) | (39) |
| Income from investments, net | 1 | 1 | 11 |
| **Income before extraordinary items and income taxes** | **149** | **94** | **105** |
| Extraordinary expenses net | - | (4) | - |
| **Income before income taxes** | **149** | **90** | **105** |
| Income taxes | (35) | (21) | (25) |
| **Net income for the year** | **114** | **69** | **80** |

During the year the Oil Companies gradually recommenced their investment programmes, which had been drastically reduced from the second half of 1998 onwards due, principally, to the fall in crude oil prices. The significant recovery in crude oil prices, which remained relatively high during the second half of 1999 and for the whole of the year 2000, did not lead to an immediate revival in investment programmes as the Oil Companies decided to proceed cautiously. In addition, the merger processes in which various Oil Companies have been involved from the end of 1998 onwards have had repercussions on their decisional processes, giving rise to further delays in the commencement of development projects.
The recovery regarded the drilling sector alone during 2000, while investments relative to plant construction and pipeline laying registered a further decrease. In line with the general market trend, the **operating revenues** of the Saipem Group registered a decrease with respect to the previous year (-10,7%); this decrease affected both the Offshore and Onshore Construction sectors, offset by the increase in volume in the Drilling sectors, in particular the Offshore sector, especially following the introduction of the new drillship Saipem 10000 and Scarabeo 7 during the second half of the year.

The higher volume of activity levels registered by the Drilling sector, together with the satisfactory results achieved by contracts in the Offshore Construction sector, led to an increase in **gross operating income**, which reached 269 million euros (+31.2% with respect to the previous year).

Depreciation and amortisation of tangible and intangible fixed assets, which include a write-down of fixed assets for 4 million euros, amounted to 136 million euros, representing an increase of 36 million euros with respect to the previous year, due, principally, to the commencement of the depreciation of the two new drilling vessels Saipem 10000 and Scarabeo 7 and the investments realised for the execution of the Blue Stream project.
**Operating income** amounted to 133 million euros, representing an increase of 26.7% with respect to the year 1999.

Financial charges have increased by 27 million euros with respect to the previous year, due principally to the higher average debt level during the year, related to capital expendiuture spending and to the rise in interest rates. The increase in financial charges also partially reflects the lower capitalisation of financial charges during the year with respect to 1999, due to the fact

that almost all of the newly constructed vessels came into operation during the year 2000.
Net income from investments amounted to 11 million euros, showing an increase of 10 million euros with respect to 1999. This result is due, for 8 million euros, to the receipt of the adjustment of the sale price of an investment sold in previous years, the payment of receivables previously under dispute, and for 3 million euros to the receipt of extraordinary dividends distributed by an associated company. Both of the above operations are a non-recurring nature.
The positive result from investments has partially compensated for the increase in financial charges, and therefore the **income before extraordinary items and income taxes** increased by 11.7%, reaching an amount of 105 million euros.
Extraordinary items show a zero result, as the income relative to the reversal of a provision made in previous years, following changes in legislation which extinguished a dispute with the Italian monetary authorities, was entirely offset by extraordinary expenses relative principally to early retirement incentives.

Therefore **income before income taxes** amounted to 105 million euros, representing an increase of 16.7% with respect to the previous year.

Following the increase in taxable income, income taxes amounted to 25 million euros, with an increase of approximately 4 million euros with respect to 1999.
**Net income for the year** amounted to 80 million euros, representing an increase of 15.9% with respect to the year 1999.

**Operating income and costs by destination**

(Millions of euros)

| | 1998 | 1999 | 2000 |
|---|---|---|---|
| **Operating revenues** | **1,705** | **1,467** | **1,310** |
| Production costs | (1,445) | (1,238) | (1,051) |
| Idle costs | (25) | (38) | (40) |
| Selling expenses | (14) | (16) | (20) |
| Research and development costs | (3) | (3) | (1) |
| Other operating income, net | 9 | 3 | 2 |
| **Contribution from operations** | **227** | **175** | **200** |
| General and administrative expenses | (70) | (70) | (67) |
| **Operating income** | **157** | **105** | **133** |

**Operating revenues**, as already mentioned above, registered a decrease of 10.7% and amounted to 1,310 million euros.
Production costs, which include direct costs of sales and depreciation of vessels and equipment utilised, amount to a total of 1,051 million euros (1,238 million euros in 1999), representing a decrease in line with the drop in the volume of activity.
Idle costs, relative mainly to the running costs of vessels and onshore construction equipment during periods of inactivity, have increased, due mainly to the effects deriving from the non utilisation of certain offshore construction vessels owned by the companies European Marine Contractor and Saibos.
Selling expenses have increased by approximately 4 million euros following the important commercial initiatives undertaken by the Group. Research and development costs have fallen by 2 million euros, from 3 million euros in 1999 to 1 million euros in the year 2000. This decrease is due to the fact that the majority of research projects are now at the final stage of the realisation of prototypes or software on which research has been concluded and, therefore, the relative costs have been capitalised.
Other net operating income amounts to 2 million euros, representing a decrease of 1 million euros with respect to that of the previous year, and comprises mainly the reversal of provisions for risks on long-term contracts no longer considered necessary.

The **contribution from operations** shows an increase of 14.3%, reaching a level of 200 million euros.
General and administrative expenses, despite including the amortisation of the new SAP modules which came into operation during the year, show a decrease of 3 million euros with respect to the previous year, and therefore amounted to 67 million euros.

An analysis of the results achieved by each sector is shown below.

**Offshore Construction**

(Millions of euros)

| | 1998 | 1999 | **2000** |
|---|---|---|---|
| Operating revenues | 971 | 756 | 652 |
| Cost of sales net of materials supplied | (646) | (493) | (405) |
| Cost of materials supplied | (184) | (129) | (97) |
| Depreciation and amortisation | (38) | (38) | (62) |
| Contribution from operations | 103 | 96 | 88 |

Revenues realised during the year have fallen by 104 million euros with respect to 1999, suffering greatly from the further reduction in investment in this sector by the Oil Companies. This has resulted in certain vessels being used only partially, in particular those owned by the companies EMC and Saibos. Furthermore, the revenue deriving from the supply of materials has also registered a reduction with respect to 1999, even if the incidence on revenue is relatively insignificant.
The contribution from operations registered a decrease of 8 million euros in overall terms, while the incidence on turnover shows an improvement, reaching a level of 13.5% in the year 2000 compared to 12.7% of the previous year; this is due, principally, to the positive results achieved by certain contracts in the Mediterranean and, during the second half of the year, to the Blue Stream project.

**Offshore Drilling and Floating Production**

(Millions of euros)

| | 1998 | 1999 | **2000** |
|---|---|---|---|
| Operating revenues | 169 | 170 | 246 |
| Cost of sales | (78) | (94) | (130) |
| Depreciation and amortisation | (32) | (36) | (42) |
| Contribution from operations | 59 | 40 | 74 |

Revenues realised during the year increased by 45% with respect to 1999, due to the effects deriving from the full utilisation of the semi-submersible drilling rig Scarabeo 4, which was idle during the first ten months of 1999, and to the introduction of the semi-submersible drilling rig Scarabeo 7 and the new drill ship Saipem 10000, both of which were operative for the whole of the second half of the year.
The increase of 36 million euros in the cost of sales is due principally to the operating costs incurred in the use of two new drilling vessels, together with the operating costs deriving from the increased use of the other rigs. The increase in amortisation and depreciation charges also derives from the addition of the two new drilling vessels.
The contribution from operations (74 million euros) increased by 34 million euros with respect to 1999, with the percentage incidence on revenues increasing from 23.5% to 30%.

**Onshore Drilling**

(Millions of euros)

| | 1998 | 1999 | **2000** |
|---|---|---|---|
| Operating revenues | 140 | 96 | 129 |
| Cost of sales | (102) | (80) | (95) |
| Amortisation and depreciation | (7) | (6) | (12) |
| Contribution from operations | 31 | 10 | 22 |

The general recovery in activity, particularly significant in Latin America, and the commencement of new contracts in Saudi Arabia and Algeria enabled the Group to increase sales revenue by 34% with respect to 1999.
The greater use of rigs, together with the increase in the charter rates, gave rise to the contribution from operations of 22 million euro (17% of revenues), against 10 million euro in 1999 (10% of revenues).

**Onshore Construction**

(Millions of euros)

| | 1998 | 1999 | **2000** |
|---|---|---|---|
| Operating revenues | 423 | 442 | 283 |
| Cost of sales net of material supplied | (290) | (266) | (199) |
| Cost of material supplied | (86) | (134) | (55) |
| Depreciation and amortisation | (13) | (13) | (13) |
| Contribution from operations | 34 | 29 | 16 |

The work carried out during the year 2000 related principally to the completion of existing projects already in the backlog at 31.12.1999, which involved reduced volumes of revenues and margins. During the second half of the year the Group was awarded important new contracts to be carried out in Kazakhstan and in Algeria; while these new contracts had only a modest effect on the 2000 accounting period, they will assume particular importance from the year 2001 onwards both in terms of volume and margins.

## CONSOLIDATED BALANCE SHEET AND FINANCIAL POSITION

**Saipem Group - Reclassified consolidated balance sheet**

(Millions of euros)

| | | 31.12.1999 | | **31.12.2000** |
|---|---|---|---|---|
| Net tangible fixed assets | | 1,223 | | 1,338 |
| Net intangible fixed assets | | 32 | | 32 |
| | | 1,255 | | 1,370 |
| - Offshore Construction | 526 | | 551 | |
| - Offshore Drilling and Floating Production | 571 | | 660 | |
| - Onshore Drilling | 61 | | 62 | |
| - Onshore Construction | 68 | | 62 | |
| - Others | 29 | | 35 | |
| Financial investments | | 5 | | 5 |
| **Non-current assets** | | **1,260** | | **1,375** |
| **Net current assets** | | **290** | | **239** |
| **Employees' termination benefits** | | **(22)** | | **(23)** |
| **Capital employed** | | **1,528** | | **1,591** |
| **Group shareholders' equity** | | **961** | | **1,011** |
| **Minority interest in net equity** | | **1** | | **-** |
| **Net debt** | | **566** | | **580** |
| **Cover** | | **1,528** | | **1,591** |

**Non-current assets** amounted to 1,375 million euros at 31st of December 2000 representing an increase of 115 million euros with respect to 1999. This increase relates entirely to net tangible fixed assets and is due mainly to the investments carried out during the year in the offshore sectors, relative to the completion of the construction of the deep-sea drilling vessels Scarabeo 7 and Saipem 10000 and to the ongoing construction of the special vessel for subsea field development (Field Development Ship).

**Net current assets** have decreased by 51 million euros, falling from 290 million euros at the end of 1999 to 239 million euros at the end of 2000. During the year working capital increased steadily up until just before the year end since the Blue Stream project activities were paid only partially, due to certain contractual formalities were still under discussion. With the finalisation of all contractual aspects during the last part of December, the Client was able to pay both the contract advance and the contract fees matured; this has led to a significant reduction in working capital, principal factor of the reduction in net current assets. As a result of the above, the **capital employed** increased by 63 million euros, reaching a level of 1,591 million euros as of 31st of December 2000, compared to 1,528 million euros at the end of 1999.

**Group shareholders' equity**, inclusive of the share attributable to minority interests, has increased by 49 million euros, reaching a total of 1,011 million euros as of 31st of December 2000, against 962 million euros at the end of 1999; the increase is due to the net income for the period and the effect deriving from the conversion of assets and liabilities expressed in currencies other than euro, net of the dividends distributed by the parent company for 23 million euros.

The increase in shareholders' equity was lower than to the increase in net capital employed, thus determining an increase in **net debt,** which amounted to 580 million euros at 31st of December 2000, against 566 million euros at the end of 1999.

**Net Financial Debt**

(Millions of euros)

| | 31.12.1999 | **31.12.2000** |
|---|---|---|
| Payable towards banks due after one year | 12 | 5 |
| Payable towards other providers of finance due after one year | 30 | 108 |
| **Net medium/long-term financial debt** | **42** | **113** |
| Bank and post office accounts, Eni group finance companies | (86) | (124) |
| Cash on hand and cash equivalents | (1) | (2) |
| Other receivables due within one year | (66) | (45) |
| Payable towards banks due within one year | 157 | 139 |
| Payable towards other providers of finance due within one year | 516 | 497 |
| Payable towards associated companies due within one year | 4 | 2 |
| **Net short-term financial debt** | **524** | **467** |
| **Net financial debt** | **566** | **580** |

**Saipem Group - Reclassified statement of cash flow and change in net debt**

(Millions of euros)

| | 31.12.1999 | **31.12.2000** |
|---|---|---|
| Net income before minority interest | 69 | 80 |
| *Adjustments to reconcile to cash generated from operating income before changes in working capital:* | | |
| Amortisation, depreciation and other non-monetary items | 86 | 127 |
| Net gains on sale of business segment | - | (1) |
| Dividends, interest, extraordinary income/expenses and income taxes | 32 | 77 |
| **Cash generated from operating income before changes in working capital** | **187** | **283** |
| Changes in working capital related to operations | (125) | 121 |
| Dividends, interest, extraordinary income/expenses and income taxes received/(paid) during the year | (25) | (136) |
| **Net cash flow from operating activities** | **37** | **268** |
| Investments in tangible and intangible fixed assets | (412) | (231) |
| Disposals | 7 | 3 |
| Other investments and disposals | (18) | (22) |
| **Free cash flow** | **(386)** | **18** |
| Investments and disposals related to financing activities | 82 | 21 |
| Changes in financial debt | 374 | 22 |
| Cash flow from share capital and reserves | (38) | (23) |
| Changes in consolidation area and exchange differences relative to cash and cash equivalents | 6 | 1 |
| **Net cash flow for the year** | **38** | **39** |
| **Free Cash Flow** | **(386)** | **18** |
| Cash flow from share capital and reserves | (38) | (23) |
| Exchange differences and other changes relative to net financial debt | (7) | (9) |
| **Change in net debt** | **(431)** | **(14)** |

The **cash generated from operating income before changes in working capital**, (283 million euros), financed the increase in working capital and generated a **net cash flow from operating activities** of 268 million euros.
As a result of net investments of 231 million euros the **free cash flow** showed a balance of 18 million euros.

The cash flow from capital and reserves showed a negative balance of 23 million euros, as a result of the payment of dividends, while the effect on net financial debt deriving from the conversion of foreign currency financial statements was negative for 9 million euros. Consequently, **change in net debt** increased by 14 million euros.

In particular:
The **cash generated from operating income before changes in working capital** (+283 million euros) derives from:
- net income for the year of 80 million euros;
- depreciation and write-down of tangible fixed assets (+136 million euros); decrease in reserves for risks and charges (-9 million euros);
- the decrease in the provision for doubtful debts (-1 million euros); in net gain on sale of business segment (-1 million euros); in dividends matured (-3 million euros); in net financial charges (+55 million euros); the net change in employee termination indemnity (+1 million euros) and income taxes (+25 million euros).

The decrease in working capital related to operations (121 million euros) has already been discussed in the analysis of the consolidated balance sheet and financial position.

Dividends, interest, extraordinary income/expenses and income tax paid during the year (-136 million euros) comprise dividends received (+3 million euros), interest paid (-95 million euros), extraordinary expenses paid (-16 million euros) and taxation paid (-28 million euros).

The investments in tangible and intangible fixed assets amounted to 231 million euros and related to the Offshore Construction sector (-73 million euros), the Offshore Drilling and Floating Production sector (-127 million euros), the Onshore Drilling sector (-14 million euros), the Onshore Construction sector (-4 million euros) and Other (-13 million euros). Further information relative to the capital expenditure carried out during the year is provided in the section “Operating review” at the beginning of this report.

Disposals (+3 million euros) related to the sale of certain Onshore Construction vessels and equipment.

The cash flow from capital and reserves (-23 million euros) relates entirely to the payment of dividends to Shareholders relative to the 1999 income.

# OTHER INFORMATION

*Italy, San Donato Milanese.*
*Headquarters.*

## SIGNIFICANT POST BALANCE SHEET EVENTS

During the first two months of 2001 the Saipem Group was awarded new contracts for a total value of approx. 100 million euros, 38 million euros of which awarded to the parent company. The more important contracts awarded were:

**Offshore Construction**

- The Grane project in the Norwegian sector of the North Sea, (Norsk Hydro Client), laying, of two sealines, 28 and 18 inches in diameter, 125 metres depth of 204 and 50 kilometres long respectively. This contract was awarded to European Marine Contractors Ltd..
- The Beatrice project in the British sector of the North Sea, on behalf of Talisman Energy (UK) Ltd., for the replacement of a 16” sealine 60 kilometres long. This contract was awarded to European Marine Contractors Ltd.

**Offshore Drilling**

- The six-month charter of the semi-submersible drilling vessel Scarabeo 6 in Norway on behalf of Norsk Hydro. This contract was awarded to the parent company Saipem S.p.A.
- The charter for a four months of the semi-submersible drilling vessel Scarabeo 7 for a four month period in Nigeria on behalf of Total Fina Elf. This contract was awarded to the parent company Saipem S.p.A.
- The charter for one-month period, of the Perro Negro 4 jack up in Nigeria on behalf of Agip Nigeria. This contract was awarded to the parent company Saipem S.p.A..

**Onshore Drilling**

- The charter of rig No. 5891 for a three year period in Saudi Arabia, on behalf of Aramco. This contract was awarded to Saudi Arabian Saipem Ltd..
- The charter of one rig in Italy on behalf of the Agip Division of Eni. This contract was awarded to Saipem S.p.A.
- The charter of rig 5895 for a period of two months in Algeria on behalf of Sonatrach. This contract was awarded to Saipem S.p.A..
- The charter of rig 5863 for a five month period in Egypt on behalf of Petrobel. This contract was awarded to Saipem S.p.A..
- The charter of rig 248 for a one month period in Kazakhstan on behalf of KPO. This contract was awarded to SaiPar.

## MANAGEMENT EXPECTATIONS OF OPERATIONS

The projects already in the backlog at the end of the year 2000, which are scheduled for completion during the year 2001, are expected to give rise to revenue for a total of 1,329 million euros; of these, 800 million euros relate to Offshore Construction, 226 million euros to Onshore Construction, 240 million euros to Offshore Drilling and Floating Production and 63 million euros to Onshore Drilling.

In addition to the contracts already awarded, the Group is continuing a strong commercial campaign in order to take full advantage of the recovery in investments by the Oil Companies in the deep-water pipeline-laying sector and in the installation of offshore structures, with particular emphasis on the areas of South East Asia, West Africa and the Mediterranean.

On the basis of currently available information, the favourable market forecast, the high level of order backlog, the full operation of the Blue Stream project and the operativity of the new drilling vessels for the entire year, lead us to expect an increase in operating income for the year 2001 even greater than that registered during the year 2000.

## RELATED PARTY TRANSACTIONS

The main transactions with related parties are disclosed below, in accordance with the requirements of the Consob "Commissione Nazionale per le Società e la Borsa" (the regulating body for the Italian Stock Exchange) Regulations No. 97001754 dated 20th of February 1997 and No. 98015375 dated 27th of February 1998,
Saipem S.p.A. is a subsidiary of Eni S.p.A.. The transactions with related parties entered into by Saipem S.p.A., and by all of the companies within the Saipem Group consolidation area, relate essentially to the supply of services, the trading of materials, and the receipt and use of financial instruments with other companies controlled by or related to Eni S.p.A. These operations are an integral part of the ordinary day-to-day business and are carried out on an arms' length basis at market conditions. That is, at prices which would have applied between independent parties.
All the transactions entered into have been carried out for the mutual benefit of the companies involved.
The table below shows the value of transactions of a commercial, financial or of any other nature entered into with related parties. The analysis by company has been based on the principle of the materiality of the transaction in relation to total company transactions. The transactions not analysed, because not material, are summarised according to the following categories:
- subsidiary companies of Eni S.p.A.;
- associated companies of Eni S.p.A;
- other related parties.

**Commercial and other transaction**

(Millions of euros)

| Company name | 31st of December 2000 | | 2000 Fiscal year | | | |
|---|---|---|---|---|---|---|
| | Receivable | Payable | Costs | | Revenues | |
| | | | Goods | Services | Services | Other |
| Eni S.p.A. | 71 | 18 | - | 1 | 181 | - |
| Snam S.p.A. | 7 | 1 | - | 1 | 4 | - |
| Snamprogetti S.p.A. | 8 | 7 | - | 1 | 2 | - |
| Agip Nigeria | - | - | 3 | - | - | - |
| Agip Recherches Congo SA | 29 | - | - | - | 42 | - |
| Agip Algeria | - | - | - | - | 4 | - |
| Enidata S.p.A. | - | 1 | - | 11 | - | - |
| Grantour | - | 2 | - | - | - | - |
| I.E.O.C. | - | - | - | - | 9 | - |
| Sieco | - | 1 | - | 4 | - | - |
| N.A.E. | 4 | - | - | - | 4 | - |
| Agip Angola | 2 | - | - | - | 2 | - |
| Finas | 1 | 1 | - | 8 | - | 1 |
| Naoc – Nigerian Agip Oil Co. Ltd. | 11 | - | - | - | 30 | - |
| Agip Petroli S.p.A. | - | 3 | 9 | - | 1 | - |
| Sasp Offshore Engeneering S.p.A. | 1 | 3 | - | 3 | 1 | - |
| Consorzio Eni per l'Alta Velocità – Cepav 1 | 10 | 1 | - | 4 | 3 | - |
| Padana Assicurazioni S.p.A. | 43 | 41 | - | 13 | 15 | - |
| Eni Servizi Amministrativi S.p.A. | - | 1 | - | 1 | - | - |
| Eni International Holding | - | 2 | - | - | - | - |
| Immobiliare Metanopoli | - | - | - | 3 | - | - |
| Eni subsidiary companies | 7 | 5 | - | 2 | - | - |
| Eni associated companies | 29 | 90 | - | - | 181 | 8 |
| **Total** | **223** | **177** | **12** | **52** | **479** | **9** |

Saipem S.p.A., and other companies included in the consolidation area provide services to the Eni Group companies in the Onshore and Offshore Construction and in the Onshore and Offshore Drilling sectors, both in Italy and abroad. During the year 2000 operating revenues realised from the Eni Group of companies amounted to 257 million euros, to which correspond, on the basis of normal contractual payment terms, receivables of 179 million euros as of 31st of December 2000. Revenues from associated companies of Eni S.p.A. include 164 million euros from the Blue Stream Pipeline Company B.V. in relation to the project of the same name.

**Financial transactions**

(Millions of euros)

| Company name | 31st of December 2000 | | | 2000 Fiscal year | |
|---|---|---|---|---|---|
| | Receivable | Payables | Commitment | Charges | Income |
| Enifin S.p.A. | 39 | 136 | 1,271 | 24 | 3 |
| Enibank International Bank Ltd. | 6 | 95 | 22 | 10 | - |
| Sofid S.p.A. | 1 | - | - | - | - |
| Serleasing S.p.A. | - | 34 | - | 3 | - |
| Eni Coordination Center | 21 | 318 | - | 11 | - |
| **Total** | **67** | **583** | **1,293** | **48** | **3** |

Enifin S.p.A., a wholly-owned subsidiary of Eni S.p.A, provides financial services to the Eni Group companies. In accordance with a specific agreement between Saipem and Enifin, the latter provides financial services to the Italian companies of the Saipem Group consisting of loans, deposits and financial instruments for the hedging of foreign exchange and interest rate risk.

## EURO

Saipem S.p.A. carries out a significant part of its activities within the UE Countries and therefore the introduction of the European currency shall probably have an effect on these activities. As part of the review and update of its IT systems and software, the Saipem Group is transforming the accounting systems of its companies which operate in the interested countries and is preparing its accounting process for transactions in euro. The parent company will switch over to the record of accounting data in the single European currency from July 2001. The majority of the other Group companies involved in this process have already switched over and the other smaller Group companies shall do so during the year. The total costs incurred up to 31st of December 2000 amount to approximately 422 thousand euros; the estimated total cost to complete the switchover amounts to approximately 1.3 million euros. Given the length of the permitted transition period (from 1st of January 1999 to 1st of January 2002), we do not currently foresee any particular operational problems, nor do we believe that the costs involved in the changeover to euro currency will have any significant negative effects on the consolidated financial statements.

The parent company's share capital shall be converted into euros by means of a resolution to be passed by an Extraordinary Shareholders' Meeting called following the ordinary meeting for the approval of these financial statements.

The European monetary unification could, however, have significant effects on the factors which influence Saipem's business, such as interest rates, currency exchange rates and purchase/sales prices.

## OWN SHARES HELD BY SAIPEM S.p.A. AND IT'S SUBSIDIARIES

Saipem S.p.A. and it's subsidiary companies do not hold, and did not at any time hold, their own shares, either directly or indirectly, through trust companies or proxies.

## MANAGEMENT INCENTIVE SCHEME

The Ordinary Shareholders' Meeting held on 26th of April 2000 for the approval of the 1999 financial statements resolved, as part of the allocation of net income for the period, to allocate a sum of Lire 147,300,000 (equivalent to 76,074 euros), corresponding to No.147,300 shares, to the reserve for future share issues, created in accordance with Article No. 2349 of the Italian Civil Code. This amount, together with the remaining unutilised reserve of Lire 62,700,000 (equivalent to 32,382 euros), resolved in occasion of the approval of the 1998 financial statements, brought the balance of this reserve up to a total of Lire 210,000,000 (equivalent to 108,456 euros).

As from 1st of January 2000, in accordance with Law No. 505 of 23rd of December 1999, the nominal value of the bonus shares assigned is subject to income tax and social welfare contributions at the moment of issue of the shares, even if these shares are subject to a three-year transfer restriction. This modification is designed to align the moment in which the benefit becomes taxable to the moment of acquisition of the shares by the assignee and means that the shares shall be issued, in relation to the subscriptions received, at the end of the abovementioned period.

The Board of Directors' Meeting held on 28th of July 2000 approved a new Incentives Scheme in order to safeguard the effectiveness of the incentive system for those managers who achieve their annual targets, both corporate and individual, taking account of the recent changes to the relative fiscal legislation.

In order to implement the new Incentives Scheme, the Extraordinary Shareholders' Meeting of 21.9.2000, in accordance with Article No. 2349 of the Italian Civil Code, conferred the Board of Directors the authority, in accordance with Article No. 2443 of the Italian Civil Code, to increase the Company's share capital by up to a maximum of No. 900,000 ordinary shares (equivalent to approx. 0.20% of the current share capital), by means of a bonus issue, prior to 30.9.2000 in application of the 2000-2001 incentives scheme. The Board of Directors' Meeting held on 25.10.2000 resolved, in accordance with Article No. 2359 of the Italian Civil Code, to increase the share capital by the issue of up to a maximum of No. 210,000 ordinary shares with a nominal value of Lire 1,000, to be offered as a share bonus to the managers of Saipem S.p.A. and its subsidiary companies who have met their corporate and personal targets during the year 2000. The increase is covered by the utilisation of the "Reserve for future share issues in accordance with Article 2349 of the Italian Civil Code", specifically created for this purpose by the Ordinary Shareholders' Meeting of 26.4.2000.
The subscription offer is made within one month following the end of the third year from the date of the assumption of the offer commitment, or, if previously, within one month following the date of approved resignation or the death of the assignee. Saipem S.p.A.'s commitment, non-transferrable *inter vivos* by the assignee, is firm and irrevocable and is forfeited in the event of the assignee's unilateral resignation within the period of three years from the date of the assumption of the offer commitment.
On the basis of the resolution passed by the Board of Directors and of the performance realised by the Group's managers, No. 210,000 shares were offered in subscription.

In order to provide Saipem S.p.A. with an effective management incentive instrument, the Extraordinary Shareholders' Meeting of 21.9.2000 conferred the Board of Directors with the power, to be exercised before 31.12.2000, to increase the share capital, through payment, by a maximum of one billion lire in accordance with the last paragraph of Article No. 2441 of the Italian Civil Code and of the second and third paragraphs of Article No. 134 of Law No. 58 of 24th of February 1998. The new shares issued shall be offered, in accordance with Article No. 2359 of the Italian Civil Code, to the managers of Saipem S.p.A. and its subsidiary companies, who occupy those management positions most directly responsible for the Group's results, as identified by the Board of Directors on the basis of the Company's evaluation system, on the condition that the Saipem S.p.A. shares have reached the quoted prices pre-established by the Board of Directors during the periods 25.10.2000/31.7.2001 and 1.8.2001/31.7.2002.
The subscription rights are personal, unavailable and non-transferable *inter vivos*. In the event of the assignee's approved resignation, the assignee maintains the right to exercise, for a period of up to six months from the date of resignation, those subscription rights which were already exercisable, while any remaining subscription rights are forfeited. In the event of the death of the assignee, the heirs maintain the right to exercise, within a period of six months from the date of death, those subscription rights which were already exercisable, while the remaining subscription rights are extinguished. In the event of the assignee resigning against the Company's wishes, all subscription rights are forfeited.
In accordance with the powers conferred by the Shareholders' Meeting of 21.9.2000, the Board of Directors of Saipem S.p.A., in its meeting of 25.10.2000, resolved a paid increase in share capital for a maximum amount of one billion lire, by means of the issue of up to No. 1,000,000 ordinary shares to be offered in option, at the price of 6.498 euros, to those managers of Eni most directly responsible for the Group's results. The options are exercisable as follows:
- up to 50% of the total from 1st of August 2001 to 31st of July 2005, on the condition that the arithmetic average of the quoted prices of Saipem S.p.A. ordinary shares on the Italian Stock Exchange registered for 20 continuous stock market trading days during the period from 25th of October 2000 to 31st of July 2001 is equal to or greater than 7.000 euros.
- up to 100% from 1st of August 2001 to 31st of July 2005, on the condition that the arithmetic average of the quoted prices of Saipem S.p.A.'s ordinary shares registered on the Italian Stock Exchange for 20 continuous stock market trading days during the period from 1st of August 2001 to 31st of July 2002 is equal to or greater than 7.500 euros.

The achievement of the prices set for the year 2002 renders exercisable those options not exercised previously, due to the share's failure to reach the prices set for the year 2001.

## CORPORATE GOVERNANCE PRINCIPLES

Having established that the Company's organisation model is already substantially in line with the principles contained in the Self Regulatory Code for Quoted Companies, the Board of Directors, in the meeting held on 9th of November 2000, decided to implement the few remaining steps necessary in order to adhere completely to this code.
In particular, the Company has introduced the following changes:

- the modification of the Company's statute to include a system of voting lists for the nomination of directors and of statutory auditors;
- the attribution of a central role to the Board of Directors in the Company's Corporate Governance system;
- the prevalence in the Board of Directors of independent directors and directors without any particular powers;
- the distinction between the functions of Chairman and those of Managing Director;
- the creation within the Board of Directors of a Compensation Committee and an Audit Committee, both of which composed entirely of directors without particular powers;
- the distinction between the directional role of the Board of Directors, the management role of the Chairman and Managing Directors and the control role carried out by the independent audit firm, by the Board of Statutory Auditors and by the Audit Committee;
- the creation of a specific structure dedicated to relations with investors and shareholders;
- the implementation of the existing Internal Audit function;
- the issue of a set of regulations governing Shareholders' Meetings;
- the adoption of a Code of Practice which the employees of the Saipem Group are obliged to follow at all times during the course of their activities and in their dealings with third parties;
- the availability of an Internet website providing, amongst other things, the Company's press releases and the periodic financial reports prepared by the Company.

# CONSOLIDATED FINANCIAL STATEMENTS AT 31ST OF DECEMBER 2000

# BALANCE SHEETS

(Millions of euros)

| | | 31-12-1999 | | 31-12-2000 |
|---|---|---|---|---|
| ASSETS | | | | |
| **Share capital to be received:** | | **-** | | **-** |
| **Non-current assets:** | | | | |
| - Intangible assets: | | | | |
| *Start-up and capital costs* | | *5* | | *3* |
| *Industrial patents and similar rights* | | *5* | | *15* |
| *Goodwill* | | *1* | | *-* |
| *Differences on consolidation* | | *4* | | *3* |
| *Assets under development and payments on account* | | *17* | | *9* |
| *Others* | | *-* | | *2* |
| **Total** | | **32** | | **32** |
| - Tangible assets: | | | | |
| *Land and buildings* | | *25* | | *38* |
| *Plant and machinery* | | *597* | | *1,131* |
| *Industrial and commercial equipment* | | *50* | | *57* |
| *Other assets* | | *10* | | *6* |
| *Assets under construction and payments on account* | | *541* | | *106* |
| **Total** | | **1,223** | | **1,338** |
| - Financial fixed assets: | | | | |
| *Investments:* | | *5* | | *5* |
| *Associated companies* | *1* | | *1* | |
| *Other* | *4* | | *4* | |
| **Total** | | **5** | | **5** |
| **Total non-current assets** | | **1,260** | | **1,375** |
| **Current assets:** | | | | |
| - Inventories: | | | | |
| *Raw materials and supplies* | | *76* | | *85* |
| *Contract work in progress* | | *108* | | *48* |
| **Total** | | **184** | | **133** |
| - Account receivable: | | | | |
| Trade receivables: | | 470 | | 464 |
| *- due within one year* | *449* | | *445* | |
| *- due after one year* | *21* | | *19* | |
| Subsidiary companies: | | - | | 3 |
| *- due within one year* | **-** | | *3* | |
| *Associated companies:* | | *19* | | *16* |
| *- due within one year* | *19* | | *16* | |
| Parent companies: | | 22 | | 71 |
| *- due within one year* | *22* | | *71* | |
| Others: | | 250 | | 249 |
| *- due within one year* | *247* | | *244* | |
| *- due after one year* | *3* | | *5* | |
| **Total** | | **761** | | **803** |
| - Cash: | | | | |
| *Bank, postal and Eni Group finance companies* | | *86* | | *124* |
| *Cash-in-hand and cash equivalents* | | *1* | | *2* |
| **Total** | | **87** | | **126** |
| **Total current assets** | | **1,032** | | **1,062** |
| **Prepayments and accrued income** | | **43** | | **148** |
| **Total assets** | | **2,335** | | **2,585** |

(Millions of euros)

| | | 31-12-1999 | | **31-12-2000** |
|---|---|---|---|---|
| LIABILITIES | | | | |
| **Shareholders' equity:** | | | | |
| - Share capital | | 227 | | 227 |
| - Share premium reserve | | 291 | | 291 |
| - Revaluation reserve as per Law no.413 of 30 December 1991 | | 2 | | 2 |
| - Legal reserve | | 22 | | 23 |
| - Other reserves : | | 57 | | 50 |
| *- Reserve for exchange rate differences* | *57* | | *50* | |
| - Retained earnings | | 293 | | 338 |
| - Net income for the year | | 69 | | 80 |
| **Total group shareholders' equity** | | **961** | | **1,011** |
| **Minority interests in net equity** | | **1** | | **-** |
| **Total** | | **962** | | **1,011** |
| **Provision for contingencies:** | | | | |
| *Severance pay and similar provisions* | | *7* | | *9* |
| *Income taxes* | | *11* | | *16* |
| *Others* | | *40* | | *24* |
| **Total** | | **58** | | **49** |
| **Employees' termination benefits** | | **22** | | **23** |
| **Accounts payable:** | | | | |
| Due to banks: | | 169 | | 144 |
| *- due within one year* | *157* | | *139* | |
| *- due after one year* | *12* | | *5* | |
| Due to other financial institutions: | | 546 | | 605 |
| *- due within one year* | *516* | | *497* | |
| *- due after one year* | *30* | | *108* | |
| Advances | | 64 | | 136 |
| Accounts payable to suppliers: | | 341 | | 355 |
| *- due within one year* | *329* | | *346* | |
| *- due after one year* | *12* | | *9* | |
| Amounts payable to associated companies: | | 9 | | 6 |
| *- due within one year* | *9* | | *6* | |
| Amounts payable to parent companies: | | 1 | | 3 |
| *- due within one year* | *1* | | *3* | |
| Amounts payable to taxation authorities: | | 38 | | 30 |
| *- due within one year* | *38* | | *30* | |
| Social security charges payable | | 4 | | 5 |
| *- due within one year* | *4* | | *4* | |
| *- due after one year* | *-* | | *1* | |
| Other amounts payable: | | 86 | | 124 |
| *- due within one year* | *86* | | *124* | |
| **Total** | | **1,258** | | **1,408** |
| **Accrued expensens and deferred income** | | **35** | | **94** |
| **Total liabilities** | | **2,335** | | **2,585** |
| | | | | |
| GUARANTEES AND OTHER MEMORANDUM AND CONTINGENCY ACCOUNTS | | | | |
| Guarantees given on behalf of: | | 377 | | 752 |
| - subsidiary companies | 290 | | 489 | |
| - associated companies | 64 | | 107 | |
| - parent companies | 6 | | 6 | |
| - others | 17 | | 150 | |
| Guarantees given by third parties on behalf of the parent company | | 507 | | 797 |
| Collateral given on behalf of: | | | | |
| - subsidiary companies | | 83 | | 59 |
| Other memorandum and contingency accounts: | | | | |
| - Commitments | | 792 | | 1,332 |
| | **1,759** | | **2,940** | |

# STATEMENTS OF INCOME

(Millions of euros)

| | | 1999 | | 2000 |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Turnover | | 1,480 | | 1,370 |
| Variation in contract work in progress | | (13) | | (60) |
| Increase in internal work capitalized under fixed assets | | 30 | | 30 |
| Other revenues and income: | | 21 | | 21 |
| *- others* | *21* | | *21* | |
| **Total** | | **1,518** | | **1,361** |
| **Operating expenses:** | | | | |
| Raw materials, consumables and supplies | | 274 | | 218 |
| Services | | 573 | | 448 |
| Use of third party assets | | 128 | | 122 |
| Payroll and related costs: | | 309 | | 290 |
| *Wages and salaries* | *240* | | *226* | |
| *Social security contributions* | *37* | | *41* | |
| *Employees' termination benefits* | *4* | | *5* | |
| *Pensions and similar costs* | *3* | | *2* | |
| *Other costs* | *25* | | *16* | |
| Amortization, depreciation and write-downs: | | 100 | | 137 |
| *Amortization of intangible assets* | *7* | | *14* | |
| *Depreciation of fixed assets* | *91* | | *118* | |
| *Other write-downs of non-current assets* | *2* | | *4* | |
| *Write-downs of receivables included under current assets* | *-* | | *1* | |
| Variation in raw materials, supplies and consumables | | - | | (9) |
| Provision for contingencies | | 1 | | - |
| Other provisions | | 13 | | 13 |
| Other operating costs | | 15 | | 9 |
| **Total** | | **1,413** | | **1,228** |
| **Difference between revenues and operating expenses** | | **105** | | **133** |
| **Financial income and expenses:** | | | | |
| Income from investments: | | 1 | | 11 |
| *- associated companies* | *-* | | *9* | |
| *- other* | *1* | | *2* | |
| Other financial income: | | 102 | | 80 |
| Other income: | | | | |
| *- associated companies* | *1* | | *1* | |
| *- other* | *101* | | *79* | |
| **Total** | **102** | | **80** | |
| Interest and other financial expenses: | | 114 | | 119 |
| *- other* | *114* | | *119* | |
| **Total** | | **(11)** | | **(28)** |
| **Adjustments to financial income and expenses:** | | | | |
| **Total adjustments** | | **-** | | **-** |
| **Extraordinary income and expenses** | | | | |
| Income: | | 3 | | 24 |
| *- gains on sales of assets* | *-* | | *10* | |
| *- other income* | *3* | | *14* | |
| Expenses: | | 7 | | 24 |
| *- losses on sales of assets* | *-* | | *1* | |
| *- other expense* | *7* | | *23* | |
| **Total extraordinary income and expenses** | | **(4)** | | **-** |
| **Income before income taxes** | | **90** | | **105** |
| Income taxes | | 21 | | 25 |
| **Net income for the year** | | **69** | | **80** |
| Minority interest | | - | | - |
| **Group net income for the year** | | **69** | | **80** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Eni GROUP Saipem

# STATEMENT OF CASH FLOW

(Millions of euros)

| | 1999 | | 2000 | |
|---|---|---|---|---|
| Net income for the year | 69 | | 80 | |
| Depreciation and amortization | 98 | | 132 | |
| Write-downs (revaluations) | (2) | | 3 | |
| Net change in provision for contingencies | (11) | | (9) | |
| Net change in employees' termination benefits | 1 | | 1 | |
| Losses on disposals, eliminations and transfers | 1 | | - | |
| Losses (gains) on accounts receivable in relation to disposals | (1) | | (1) | |
| (Dividend income) | (1) | | (3) | |
| (Interest income) | (8) | | (6) | |
| Interest expenses | 16 | | 61 | |
| Extraordinary (income)/expenses | 4 | | - | |
| Income taxes | 21 | | 25 | |
| *Operating income before working capital changes* | | *187* | | *283* |
| (Increase) decrease: | | | | |
| Inventories | 14 | | 51 | |
| Trade and other accounts receivable | 4 | | (61) | |
| Prepayments and accrued income | (21) | | (58) | |
| Trade and other accounts payable | (109) | | 138 | |
| Accrued expenses and deferred income | (13) | | 51 | |
| *Cash generated from operations* | | *62* | | *404* |
| Dividends received | 1 | | 3 | |
| Interest received | 9 | | (41) | |
| Interest paid | (16) | | (54) | |
| Extraordinary (expenses)/income (paid)/received | - | | (16) | |
| Income taxes paid | (19) | | (24) | |
| Tax credits (purchased) / sold | - | | (4) | |
| **Net cash flow from operating activities** | | **37** | | **268** |
| Investments: | | | | |
| Intangible assets | (17) | | (14) | |
| Tangible assets | (395) | | (217) | |
| Changes in accounts receivable and payable in relation to investments | (18) | | (22) | |
| Additions to short-term financing receivables | (19) | | (12) | |
| Outflows resulting from investments | | (449) | | (265) |
| Disposals: | | | | |
| Tangible assets | 7 | | 3 | |
| Reduction in short-term financing receivables | 101 | | 33 | |
| Inflows resulting from disposals | | 108 | | 36 |
| **Net cash flow from investing activities** | | **(341)** | | **(229)** |
| Take on of long-term financial debts | 5 | | 5 | |
| Payment of long-term financial debts | (5) | | (10) | |
| Additions to (reduction in) short-term current account debts | 374 | | 27 | |
| Dividends paid | (38) | | (23) | |
| **Net cash flow from financing activities** | | **336** | | **(1)** |
| Effect of exchange differences | | 6 | | 1 |
| **Net cash flow for the year** | | **38** | | **39** |
| **Cash at the beginning of the year** | | **49** | | **87** |
| **Cash at the end of the year** | | **87** | | **126** |

## BASIS OF PREPARATION

The consolidated financial statements at 31st of December 2000 were prepared in accordance with the criteria established by paragraph 3 of Legislative decree no. 127 of 9th of April 1991 (hereinafter the "Decree") and comply with the accounting principles of the Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri and, where silent, those of the International Accounting Standards Committee (I.A.S.C.).
The true and correct presentation of the consolidated balance sheet and statement of income has not deviated from that laid out in paragraph 4 of article 29 of the Decree.
The consolidated financial statements comprise the financial statements of Saipem S.p.A. and all Italian and foreign subsidiaries over which Saipem S.p.A. exerts direct and indirect control by way of majority holdings of voting rights or voting rights sufficiently large enough to exert a dominant influence at a general shareholders' meeting. The consolidated financial statements also include on a line-by-line proportional basis, the financial statements of companies owned and managed jointly with other partners.
Companies held exclusively for subsequent sale, those in liquidation and minor investments of not material size are excluded from the consolidation.
The criteria adopted to establish the area of consolidation are consistent with those of the prior year.
Listed in the following tables are the subsidiary and associated companies of Saipem S.p.A., as required by article 2359 of the Civil Code. They include a summary by location (in Italy and abroad) and details of the consolidation methods or valuation criteria used, together with details of any changes in area of consolidation during the year. The last paragraph of article 39 of the Decree was taken into account when preparing the list of companies.
The financial statements of consolidated subsidiaries are subject to audit by audit firms, which also examine and express their opinion on the information prepared for inclusion in the consolidated financial statements.
Subsequent events occurring after year-end are disclosed in the Report of the Directors on the consolidated financial statements.

## CONSOLIDATION AREA

**Companies consolidated using the full consolidation method**

| Company | Registered office | Currency | Capital stock | % of holding of the Group |
|---|---|---|---|---|
| **Parent Company:** | | | | |
| Saipem S.p.A. | S. Donato Mil.se (MI) | Lit. | 440,237,300,000 | - |
| **Subsidiaries:** | | | | |
| In Italy | | | | |
| Intermare Sarda S.p.A. | Tortolì (NU) | Euro | 6,708,000 | 100 |
| Abroad | | | | |
| Saipem International B.V. | Amsterdam | Euro | 172,444,000 | 100 |

**Companies consolidated using the full consolidation method**

| Company | Registered office | Currency | Capital stock | % of holding of the Group |
|---|---|---|---|---|
| **Indirect shareholdings:** | | | | |
| Abroad | | | | |
| Saipem International BV: | | | | |
| Saipem (Portugal) Gestão de Participações SGPS S.A. | Funchal | Euro | 49,900,000 | 100 |
| Saipem Luxembourg S.A. | Luxembourg | Luf. | 125,962,250 | 100 |
| Sonsub International B.V. | Amsterdam | Nlg. | 20,000,000 | 100 |
| Saipem Australia Pty. Ltd. | Sydney | Aus$ | 17,661,000 | 100 |
| Petrex S.A. | Iquitos | N.Soles | 12,027,690 | 100 |
| Saipem (Asia) Sdn Bhd | Kuala Lumpur | Ring M. | 8,116,500 | 100 |
| Saipem U.K. Ltd. | London | L.St. | 6,470,000 | 100 |
| Saipem (Services) AG | Zurich | SwF | 5,000,000 | 100 |
| Saipem Inc. | Houston | Usd | 1,000,000 | 100 |
| ERS Equipment Rental & Services B.V. | Amsterdam | Euro | 90,760 | 100 |
| Saipem Contracting (Nigeria) Ltd. | Lagos | Naira | 567,000,000 | 97 |
| Saipem (Nigeria) Ltd. | Lagos | Naira | 259,200,000 | 89 |
| Saudi Arabian Saipem Ltd. | Al-Khobar | SR1s | 5,000,000 | 60 |
| Saipem (Malaysia) Sdn Bhd | Kuala Lumpur | Ring M. | 1,033,500 | 42 |
| Saipem Argentina S.a.m.i.c.y F. | Buenos Aires | Pesos | 6,000 | 99 |
| Saipem (Portugal) Gestão de Participações SGPS S.A.: | | | | |
| Saipem (Portugal) Comércio Marítimo Lda | Funchal | Euro | 299,278,738 | 100 |
| Saipem Perfurações e Construções Petrolíferas | | | | |
| América do Sul Lda | Funchal | Euro | 224,459 | 100 |
| Sonsub International B.V.: | | | | |
| Sonsub Inc. | Wilmington | Usd | 43,333,333 | 100 |
| Sonsub International Pty Ltd. | Sydney | Aus$ | 6,600 | 100 |
| Sonsub Ltd. | Aberdeen | L.St. | 5,900,838 | 100 |
| Sonsub S.p.A. (*) | Venezia | Euro | 884,000 | 100 |
| Sonsub Asia Sdn Bhd | Kuala Lumpur | Ring M. | 1,900,000 | 100 |
| Sonsub Ltd. | | | | |
| Sonsub A/S | Randaberg | Nok | 1,295,000 | 100 |

(*) Ex Tecnomare Industriale S.p.A..

### Companies consolidated using the proportionate method

| Company | Registered office | Currency | Capital stock | % of holding of the Group |
|---|---|---|---|---|
| **Directly related companies:** | | | | |
| SASP Offshore Engineering S.p.A. | S. Donato Mil.se (MI) | Euro | 2,550,000 | 50 |
| **Indirectly related companies:** | | | | |
| Saipem UK Ltd.: | | | | |
| European Marine Contractors Ltd. | London | L.St. | 14,000,000 | 50 |
| Saipem International B.V.: | | | | |
| Saibos (Services) S.A.S. | Paris | Fr.Fr. | 250,000 | 50 |
| SaiClo Pty. Ltd. | Perth | Aus$ | 5,000,000 | 50 |
| Saipem Aban Drilling Co. Pvt Ltd | Madras | Rs | 50,000,000 | 50 |
| SaiClo Luxembourg S.A. | Luxembourg | Luf | 6,000,000 | 50 |
| Saipem (Portugal) Gestão de Participações SGPS S.A. : | | | | |
| Saibos Construções Maritimas Lda | Funchal | Euro | 55,102,104 | 50 |
| FPSO Firenze Produção de Petroleo Lda | Funchal | Esc. | 1,500,000,000 | 50 |
| ERS Equipment Rental & Services B.V. : | | | | |
| SB Construction and Maritime Services B.V. | Amsterdam | Nlg | 40,000 | 50 |
| **Other companies:** | | | | |
| European Marine Contractors Ltd: | | | | |
| European Marine Contractors LLC | Wilmington | Usd | 1,000 | 50 |
| European Marine Contractors Netherlands B.V. | Rotterdam | Nlg | 10,000 | 50 |
| Saibos Construções Maritimas Lda : | | | | |
| Saibos FZE | Dubai | Dirhams | 1,000,000 | 100 |
| Upstream Constructors International FZCO | Jebel Ali | Dirhams | 600,000 | 50 |

### Companies accounted for using the equity method

| Company | Registered office | Currency | Capital stock | % of holding of the Group |
|---|---|---|---|---|
| **Indirect shareholderings and indirectly related companies:** | | | | |
| Saipem International BV: | | | | |
| Saipar Drilling Company B.V. (*) | Amsterdam | Euro | 20,000 | 50 |
| SASP Offshore Engineering UK Ltd. (**) | London | L.St. | 500,000 | 50 |
| P.T. Saipem Indonesia (***) | Jakarta | Usd | 1,250,000 | 100 |
| Saifor S.p.A. (*) | Hassi Messaoud | DA | 35,000,000 | 50 |
| Saibos do Brasil Lda. (*) | Rio de Janeiro | R$ | 1,000,000 | 50 |

(*) Set up during the year and not yet operative

(**) Immaterial sized company

(***) Inactive throughout the year

**Companies accounted for using the cost method**

| Company | Registered office | Currency | Capital stock | % of holding of the Group |
|---|---|---|---|---|
| **Direct shareholdings:** | | | | |
| Consorzio Saitre | S. Donato Mil.se (MI) | Lit | 100,000,000 | 51 |
| Sage Società Consortile a r.l. (*) | Cagliari | Lit | 20,000,000 | 51 |
| Savico Società consortile a r.l. *) | Cagliari | Euro | 10,200 | 51 |
| Consorzio SAPRO | Pescara | Lit | 20,000,000 | 51 |
| **Indirectly related companies:** | | | | |
| Consorzio SI | S. Donato Mil.se (MI) | Lit | 50,000,000 | 50 |
| Consorzio U.S.G. (*) | Parma | Lit | 50,000,000 | 40 |
| APIBI Società Consortile a r.l. (*) | S. Donato Mil.se (MI) | Lit | 20,000,000 | 36 |
| Farsura Saipem (*) | Milan | Lit | 1,750,000 | 35 |
| Queiroz Petro S.A. | Rio de Janeiro | R$ | 1,511,484 | 33 |

(*) in liquidation

Variations in the area of consolidation with respect to the consolidated financial statements at 31st of December 1999, are as follows:

- following their incorporation, European Marine Contractors LLC, Saibos FZE and Upstream Constructors International FZCO have been included in the area of consolidation using the proportionate method;
- following their incorporation, Saifor S.p.A., Saipar Drilling Company B.V., and Saibos do Brasil Ltda. have been included in the area of consolidation using the equity method;
- PT Saipem Indonesia, which was inactive during the year, has been consolidated using the equity method, as opposed to the full consolidation method used in the financial statements at 31st of December 1999;
- AKJAIK Drilling Company J.S.C., which was already in liquidation at 31st of December 1999, completed the liquidation process during the year.

The consolidated financial statements year end coincides with the year end of Saipem S.p.A.'s and the majority of companies which are included in the area of consolidation, on the basis of financial statements prepared by the directors for approval by the shareholders. The year end of Saipem Aban Drilling Co. Pvt. Ltd is 31st of March and the year end of Saipem Luxembourg SA is 31st of July, therefore audited interim financial statements prepared by the directors at 31st of December 2000 have been used for consolidation purposes.
The financial statements of consolidated companies have been amended, where necessary, to comply with the accounting principles of Saipem S.p.A.
The amounts in the financial statements have been stated in millions of euros. Consequently, items with a value equal to zero or with a value less than this unit of measurement have been excluded.

## PRINCIPLES OF CONSOLIDATION

### Investments in companies included in the consolidation

Assets, liabilities, expenses and income of companies consolidated using the full consolidation method have been stated in full in the consolidated financial statements. The book value of investments has been eliminated against the shareholders' equity of the subsidiaries; the portions of shareholders' equity and income/(loss) attributable to minority interests have been stated in the related captions.

The book value of investments in companies consolidated using the proportionate method has been eliminated against the related portion of shareholders' equity of the subsidiaries. Under this method, assets, liabilities, expenses and income of consolidated companies have been stated in the consolidated financial statements in accordance with the percentage of holding held by the parent company.

The difference between the purchase price of investments and the corresponding share of equity has been allocated to specific asset and liability captions on the basis of the appraisal thereof at the date of purchase.

Any residual positive difference is recorded under the asset caption “difference on consolidation” where possible, and charged to the income statement applying the criteria used for goodwill.
Dividends, revaluations, write-downs and losses from investments in consolidated companies together with gains and losses realized on the intercompany disposals of investments in consolidated companies, have been eliminated.

### Intercompany balances and transactions

Profits and losses deriving from transactions between consolidated companies and not yet realized with third parties have been eliminated. Intercompany receivables and payables, expenses and income, together with guarantees, commitments and contingencies have also been eliminated.

### Fiscally driven entries

Adjustments and fiscally driven entries have been eliminated from the consolidated financial statements.

### Conversion of financial statements in foreign currencies

The financial statements of foreign companies have been translated into euros using the exchange rate prevailing at year-end with respect to balance sheet captions and the average annual rate for income statement accounts.

| | 1999 | | **2000** | |
|---|---|---|---|---|
| Currency | Average rate | Year end rate | **Average rate** | **Year end rate** |
| US dollar | 1.067 | 1.005 | 0.924 | 0.931 |
| Saudi riyal | 4.001 | 3.767 | 3.464 | 3.485 |
| Argentinian peso | 1.067 | 1.005 | 0.924 | 0.931 |
| Australian dollar | 1.654 | 1.542 | 1.589 | 1.677 |
| Pound sterling | 0.659 | 0.622 | 0.609 | 0.624 |
| Malaysian ringgit | 4.053 | 3.817 | 3.509 | 3.535 |
| Nigerian naira | 101.946 | 99.598 | 96.984 | 102.401 |
| Indian rupee | 46.197 | 43.600 | 41.201 | 42.993 |
| Swiss franc | 1.600 | 1.605 | 1.558 | 1.523 |
| Euro-zone currencies: | | | | |
| Dutch guilder | 2.204 | 2.204 | 2.204 | 2.204 |
| French franc | 6.560 | 6.560 | 6.560 | 6.560 |
| Portuguese escudo | 200.482 | 200.482 | 200.482 | 200.482 |
| Luxembourg franc | 40.340 | 40.340 | 40.340 | 40.340 |

The financial statements used for translation purposes are those stated in the relevant local currency or those expressed in the functional currency, i.e. the currency in which most of the economic transactions and assets and liabilities are denominated.

The financial statements expressed in a Euro zone currency have been converted using the fixed exchange rate.

Exchange rate differences arising from the translation of the financial statements of foreign companies into euros are booked to the “Reserve for exchange rate differences” in shareholders’ equity.

### Changes in consolidation principles

There have been no changes in the consolidation principles used to prepare the consolidated financial statements in respect previous year.

## VALUATION CRITERIA

In preparing the consolidated financial statements, reference is made to the Italian Civil Code and accounting principles promulgated by the Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri. Where these are silent, reference is made to those of the International Accounting Standards Committee (I.A.S.C.), which are included in current Italian general standards.
The most significant valuation criteria adopted are as follows:

### Intangible assets

Intangible assets are stated at purchase or production costs, including directly related charges.

Purchased goodwill is capitalized in the balance sheet and amortized on a straight line basis over a maximum of five years starting from the year in which it was stated in the financial statements. The same criteria are applied for the difference on consolidation account.

Costs incurred for the share capital increases are amortized on a straight- line basis, over five years starting from the year in which they were incurred.

Industrial patents and similar rights are amortized over three years following their acquisition date.

Other intangible assets, such as costs incurred for leasehold improvements, are capitalized and amortized systematically over the period of utilization of the expenditure or the residual lease period, if shorter.

Intangible assets are written-down when their book value is lower than their utilization value. If the reasons for such write-downs are no longer deemed appropriate during the year, the intangible assets, with exception of start-up costs and goodwill, are re-valued up to a maximum of their original value.

### Costs of scientific and technological research

Costs incurred in the development of new ideas and discoveries , in the study of alternative products or processes, new techniques or models, in the design and construction of prototypes and in other areas of scientific research and development are generally considered to be current costs and are expensed in the year in which they are incurred.

### Tangible assets

Tangible assets are stated at acquisition or production costs including directly related charges and financial expenses incurred during construction of the asset, net of any grants received from government authorities. In order to determine the portion of financial expenses to be attributed to cost, it is assumed that investments not financed through specific debts are financed by own capital generated during the year. Cost is revalued by the Italian companies in accordance with Revaluation Law no. 576 of 2nd of December 1975, Law no. 72 of 19th of March 1983 and Law no. 413 of 30th of December 1991.

Assets acquired under capital leases are stated at the lower of market value or the discounted lease installments and surrender price.
Tangible assets, including those under finance leases, are depreciated on a straight-line basis over their useful economic lives.

The percentages used are as follows:

| | |
|---|---|
| Buildings | 2.5 - 12.5 % |
| Plant, machinery, equipment, vehicles | 7.0 - 25.0 % |
| Industrial and commercial equipment | 3.75 - 67.0 % |
| Other assets | 12.0 - 20.0 % |

Costs relating to improvements, modernization and upgrading of assets which increase the value of the assets have been capitalized.
Ordinary maintenance and repair costs are expensed in the year in which they are incurred.Write-downs and revaluations are carried out applying the same criteria as those used for intangible assets.

**Financial assets - Shares**

Investments in subsidiary companies excluded from consolidation and in associated companies have been stated using the equity method.
Other investments have been stated at cost, adjusted for permanent impairment of value, if any. Cost is determined following the criteria used for intangible assets.
Risks arising from potential losses exceeding shareholders' equity are stated under liabilities in the account "provision for contingencies - other".
If the reasons for such write-downs are no longer valid and confirmed by future income forecasts, the investment is revalued and the adjustment charged to the income statement as a revaluation, up to a maximum of the previous write-down.

**Inventories**

Inventories, with the exception of contract work-in-progress, have been stated at the lower purchase price, calculated according to the criteria for intangible assets, and market value.
Purchase price is calculated using 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 realizable 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.
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 deferred income if negative.
The agreed revenues, where expressed in foreign currency, are calculated by taking into account the exchange rate fixed by the designated hedge; the same method is used for any costs to be incurred in a foreign currency.
The valuation of work-in-progress considers 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 be reasonably undertaken. Contract losses are allocated in full to the year in which they become known.

**Accounts receivable and payable**

Receivables have been stated at their estimated realizable value and payables at their nominal value.
Receivables and payables in foreign currency are stated using the exchange rate prevailing at year-end or, when related to a hedged transaction, the exchange rate fixed by the relevant hedge.

**Financial investments not of a fixed nature**

Holdings and securities have been stated at the lower of acquisition cost and market value.

**Prepayments and accruals**

Prepayments and accruals are recorded on an accruals basis in order to spread costs and revenues over two or more years where appropriate.

**Provisions for contingencies**

Provisions for contingencies comprise allocations made to cover certain or probable costs and expenses, which at year end, were un-quantified or uncertain as to when they would become payable.
Costs relating to cyclical maintenance programs not constituting improvements, modernization or upgrading and which can be

capitalized, are stated in the “Provisions for contingencies - other”. The cost is amortized over the relevant cycle. The provision is reviewed each year in order to provide for any modifications to the timing or estimated costs.

### Restructuring costs

In the year in which the negative market conditions cause redundancies in the company’s organizational structure and entail the reduction of personnel involved in critical activities, specific accruals are made to the “Provisions for contingencies - other”. The amounts provided for are calculated on the estimated charges to be incurred for the above-mentioned purpose.
Costs deriving from leaving and early retirement incentives are expensed in the year in which the restructuring program is formalized and related decrees issued or contractual terms agreed upon.

### Employees’ termination benefits

Employees’ termination benefits are allocated during the period of work for employees according to legislation and national labor contracts, net of applicable advances. The amount stated in the financial statements reflects the full amount matured for employees net of advances made to them. Saipem also makes contributions on behalf of employees to various organizations which are not controlled by Saipem offering medical cover to them and other benefits. Contributions to be made are based on the contractual conditions of the workers’ organizations and are charged to the income statement when paid. Obligations arising from pension funds are insignificant.

### Guarantees and other memorandum and contingency accounts

Guarantees are stated at the foot of the balance sheet for the nominal amount of the guarantee given which does not differ significantly from their actual value. Collateral given against payables or commitments is shown in the balance sheet caption, which indicates the assets given as guarantee.
Commitments for derivative contracts (forward purchases of foreign currencies and swaps) which involve future swaps of capital, other assets or the difference between two currencies are stated at the contract regulation price. The other commitments are stated at the foot of the balance sheet for the actual commitment of the company at the year-end.
Guarantees and other memorandum and contingency accounts in foreign currency are recorded by using the exchange rates prevailing at year end. Commitments for derivatives are stated at the contract forward regulation price.

### Costs and revenues

Revenues from sale of goods and services are recorded upon the transfer of ownership or on the providing of the service.

### Income taxes

Current income taxes are calculated on the basis of the estimated taxable income. The current estimated tax liability has been included under “Amounts payable to taxation authorities”.
Deferred taxation is calculated on all temporary differences between the carrying value of an asset or liability in the balance sheet and its value recognized for tax purposes. Deferred tax liabilities are calculated regardless of the actual or future tax losses of the company. Deferred tax assets are recognized only to the extent that they can reasonably be expected to be recovered. Taxation on the shareholders’ equity reserves of consolidated companies or companies valued using the equity method, is recognized when it is expected that such reserves will be distributed or utilized and such distribution or utilization will give rise to tax charges. Tax benefits relating to losses carried forward are recognized when they can reasonably be expected to be realized, even if these losses were incurred in previous years, otherwise the benefits are recognized when incurred. Deferred tax assets and liabilities are netted on an individual company basis. The net balance is recorded in the “Prepayments and accrued income” account, in the case of deferred tax assets and in the “Provision for income taxes” account, in the case of deferred tax liabilities.

### Derivative contracts

Saipem mainly uses domestic currency swap contracts and forward contracts to hedge foreign currency risks.
The valuation and book value of hedging contracts and related economic transactions covered by such contracts depends on whether hedges are classified as general or specific.

Hedges are considered specific when they always relate to a specific economic transaction.
In this case revenues and expenses related to the hedged transactions are directly recorded using the exchange rates fixed by the hedges.

General hedges which do not allow the economic transaction to be matched with the hedge are valued using the exchange rate ruling at year end and the related income and expense are charged to the income statement as exchange rate differences.

Bonuses and discounts are expensed to the income statement on an accruals basis over the duration of the related contract.

**Modification of valuation criteria**

No modifications were made to the valuation criteria applied to prepare the 1999 financial statements.

**Format and contents of the consolidated financial statements**

The format and contents of the consolidated balance sheets and statements of income have not changed with respect to those of last year.

# DETAILS OF THE FINANCIAL STATEMENTS CAPTIONS

## BALANCE SHEET - ASSETS

### NON-CURRENT ASSETS

#### Intangible assets

Intangible assets amounted to 32 million euros at 31st of December 2000, unchanged with respect to the previous year. Movements for the year are set out below:

(Millions of euros)

| | Start-up and capital costs | Industrial patents and similar right | Goodwill | Differences on consolidation | Assets under development and payments on account | Other | Total |
|---|---|---|---|---|---|---|---|
| **Historical cost** | | | | | | | |
| Balance at 31.12.1999 | 10 | 14 | 2 | 13 | 17 | 19 | 75 |
| - acquisitions | - | 9 | - | - | 3 | 2 | 14 |
| - exchange differences and other changes | - | - | - | (7) | - | - | (7) |
| - transfers | - | 11 | - | - | (11) | - | - |
| Balance at 31.12.2000 | 10 | 34 | 2 | 6 | 9 | 21 | 82 |
| **Accumulated amortization** | | | | | | | |
| Balance at 31.12.1999 | 5 | 9 | 1 | 9 | - | 19 | 43 |
| - amortization | 2 | 10 | 1 | 1 | - | - | 14 |
| - exchange differences and other changes | - | - | - | (7) | - | - | (7) |
| - transfers | - | - | - | - | - | - | - |
| Balance at 31.12.2000 | 7 | 19 | 2 | 3 | - | - | 50 |
| **Net book value** | **3** | **15** | **-** | **3** | **9** | **2** | **32** |

The main captions included under intangible assets comprise:

- Start-up and capital costs, which almost entirely comprise costs incurred for the increase in share capital, which took place in 1998.

- Industrial patents and similar rights, which mainly comprise costs incurred for the development of software programs, in particular, those regarding the SAP modules used by the Administration and Finance department of the parent company as well as those modules related to supplies, assets, maintenance and warehouse management;

- Assets under development and payments on account – third parties, which mainly refer to costs incurred by the parent company for the implementation of the integrated SAP system modules allowing the use of the euro as the accounting record currency especially for the management of accounts, as well as the plan to implement a Human Resources management system.

## Tangible assets

Tangible assets amount to 1,338 million euros showing an increase of 115 million euros compared to 1999. Changes for the year have been set out below:

(Millions of euros)

| | Land and buildings | Plant and machinery | Industrial and commercial equipment | Other assets | Assets under construction and payments on account | Total |
|---|---|---|---|---|---|---|
| **Historic cost** | | | | | | |
| Balance at 31.12.1999 | 47 | 1,359 | 243 | 37 | 541 | 2,227 |
| Movements: | | | | | | |
| - Acquisitions | 3 | 44 | 3 | - | 167 | 217 |
| - Transfers | 14 | 583 | 7 | - | (604) | - |
| - Disposals | (1) | (7) | (13) | (4) | - | (25) |
| - Eliminations | (1) | - | (2) | (1) | - | (4) |
| - Write-downs | - | (4) | - | - | - | (4) |
| - Exchange differences | 1 | 14 | 19 | 1 | 2 | 37 |
| Balance at 31.12.2000 | 63 | 1,989 | 257 | 33 | 106 | 2,448 |
| **Accumulated depreciation** | | | | | | |
| Balance at 31.12.1999 | 22 | 762 | 193 | 27 | - | 1,004 |
| Movements: | | | | | | |
| - Depreciation | 4 | 98 | 12 | 4 | - | 118 |
| - Disposals | (1) | (5) | (13) | (3) | - | (22) |
| - Eliminations | (1) | - | (2) | (1) | - | (4) |
| - Exchange differences | 1 | 3 | 10 | - | - | 14 |
| Balance at 31.12.2000 | 25 | 858 | 200 | 27 | - | 1,110 |
| **Net book value** | **38** | **1,131** | **57** | **6** | **106** | **1,338** |
| Revaluation of assets | | | | | | |
| held at 31.12.2000 | 3 | 23 | 15 | - | - | 41 |
| Net revaluation of assets held at 31.12.2000 | 1 | - | - | - | - | 1 |

Vessels working in the Offshore Construction and Offshore Drilling sectors are included under "Plant and machinery".

Increases for the year amount to 217 million euros and mainly relate to investments made to improve the operating capacity of deep water ships in the offshore sectors.

In particular, the most important investments made during the year are listed below:
- the completion of the construction of the Saipem 10000 drillship capable of drilling in depths of up to 3,000 meters (96 million euros);
- the completion of construction of a "special" Field Development Ship for the development of underwater fields (28 million euros);
- as part of the Blue Stream project activities, were developed part of the equipment necessary to the production of the quadruple joints in the Samsun onshore base, the remote submarine intervention system (R.O.V.) and the upgrading of Saipem 7000 with special equipment fitting (23 million euros);
- the completion of the conversion of Scarabeo 7 from a floatel into a semi-submersible drilling rig for deep waters (21 million euros);
- the purchase of new R.O.V.'s by a foreign subsidiary (7 million euros).

Specific equipment for offshore construction owned by a foreign subsidiary was written down by 4 million euros during the year.

Transfers from “Assets under construction and payments on account” were made after the above-mentioned investments for the drillship Saipem 10000 and the semi-submersible drilling rig Scarabeo 7 were completed.

Tangible assets include freely transferable assets of 5 million euros and leased assets for an amount of 24 million euros. Leased assets relate to a finance lease contract for the use of the drilling rig for deep waters, Scarabeo 5.

Certain tangible assets, amounting to 3 million euros and included under “land and buildings” have been pledged as lien by an Italian subsidiary to a bank against financing.

## Financial fixed assets

Financial fixed assets show a balance of 5 million euros, which remains unchanged with respect to the previous year. Changes during the year have been set out below:

(Millions of euros)

| Financial fixed assets | Cost | Adjustments | Total |
|---|---|---|---|
| Opening balance | 6 | (1) | 5 |
| Movements | - | - | - |
| **Closing balance** | **6** | **(1)** | **5** |

## Associated companies

The balance at 31st of December 2000 is 1 million euros, which is unchanged from the previous year:

Stated under the equity method:

(Millions of euros)

| | Group Holding % | 31st of December 1999 | **31st of December 2000** |
|---|---|---|---|
| SASP Offshore Engineering UK Ltd. | 50.0 | 1 | 1 |

## Other

At 31st of December 2000, this caption amounts to 4 million euros and is analyzed below.

Using the cost method:

Investments in Eni Group companies:

(Millions of euros)

| | Group Holding % | 31st of December 1999 | **31st of December 2000** |
|---|---|---|---|
| Enisud S.p.A. | 5.0 | 2 | 2 |
| Finas Co. Ltd. | 2.0 | 1 | 1 |
| Eniformazione S.C.p.A. | 15.0 | 1 | 1 |
| **Total** | | **4** | **4** |

## Inventories

Inventories amount to 133 million euros at 31st of December 2000, a decrease of 51 million euros in respect of the previous year. Changes for the year have been set out below:

(Millions of euros)

| | Raw materials and consumables | Contract work in progress | Total |
|---|---|---|---|
| **Opening balance:** | | | |
| Original value (a) | 79 | 108 | 187 |
| Provision for write-downs (b) | (3) | - | (3) |
| Net carrying value | 76 | 108 | 184 |
| **Movements for the year** | | | |
| Original value: | | | |
| - Operating variations | 9 | (60) | (51) |
| - Changes in consolidation area | - | - | - |
| - Exchange variations differences and other | - | - | - |
| Total (c) | 9 | (60) | (51) |
| **Provision for write-downs:** | | | |
| - (Allocations)/utilizations- | | - | - |
| - Exchange variations differences and other | - | - | - |
| Total (d) | - | - | - |
| **Closing balance:** | | | |
| - Original value(e=a+c) | 88 | 48 | 136 |
| - Provision for write-downs(f=b+d) | (3) | - | (3) |
| - Net carrying value (g=e+f) | 85 | 48 | 133 |

Raw materials and supplies, mainly comprising the replacement of assets and equipment, have been written-down in previous years to provide for the reduced use of certain materials and the obsolescence of certain specific items.

The valuation of work in progress includes reasonably likely additional revenues from customers, not yet formally accepted by customers.

Work in progress on behalf of Eni Group companies amounts to 4 million euros.

## Accounts receivable

Accounts receivable amount to 803 million euros, an increase of 42 million euros in respect of the previous year. Changes for the year have been set out in the following table:

(Millions of euros)

| Variations in receivables component of current assets | Trade receivables | Subsidiary companies | Associated companies | Parent companies | Other | Total |
|---|---|---|---|---|---|---|
| **-Opening balance** | | | | | | |
| - Original value (a) | 496 | - | 19 | 22 | 259 | 796 |
| - Provision for write-downs (b) | (26) | - | - | - | (9) | (35) |
| - Net value | 470 | - | 19 | 22 | 250 | 761 |
| **Variation for the year** | | | | | | |
| Original value: | | | | | | |
| - Operating variations | (7) | 3 | (3) | 49 | 1 | 43 |
| - Exchange differences | 3 | - | - | - | 1 | 4 |
| Total (c) | (4) | 3 | (3) | 49 | 2 | 47 |
| **Changes in consolidation area (d)** | **(2)** | **-** | **-** | **-** | **(3)** | **(5)** |
| **Provision for write-downs:** | | | | | | |
| - (Allocations)/utilizations | 1 | - | - | - | - | 1 |
| - Exchange differences | (1) | - | - | - | - | (1) |
| Total (e) | - | - | - | - | - | - |
| **Closing balance** | | | | | | |
| - Original value (f=a+c+d) | 490 | 3 | 16 | 71 | 258 | 838 |
| - Provision for write-downs (g=b+e) | (26) | - | - | - | (9) | (35) |
| - Net value (h=f-g) | 464 | 3 | 16 | 71 | 249 | 803 |

There are no receivables due after five years.

During the year, the parent company factored receivables without recourse of approximately 29 million euros due from the Agip division of Eni.

## Trade receivables

This caption amounts to 464 million euros at 31st of December 2000, showing a decrease of 6 million euros in respect of 31st of December 1999, and comprises receivables of a trading nature only.

Trade receivables due after one year amounted to 19 million euros (21 million euros at 31st of December 1999) and mainly relate to receivables given as collateral against the execution of long-term construction contracts.

This caption includes receivables due from Eni Group companies of 95 million euros.

## Subsidiary companies

This caption amounts to 3 million euros at 31st of December 2000, showing an increase of 3 million euros in respect of 31st of December 1999. It relates exclusively to trading transactions of the parent company with Consorzio Saitre, carried out on an arm's length basis.

## Associated companies

Receivables due from associated companies amount to 16 million euros at 31st of December 2000, a decrease of 3 million euros in respect of 31st of December 1999. They relate to trading activities, carried out on an arm's length basis with jointly controlled companies for the non-consolidated portion, and are as follows:

(Millions of euros)

| | 31st of December 1999 | **31st of December 2000** |
|---|---|---|
| **- due within one year:** | | |
| | | |
| SaiClo Luxembourg S.A. (financial receivables relating to operations) | 10 | 11 |
| Saipem Aban Drilling Company Pvt. Ltd. | 3 | 5 |
| European Marine Contractors Ltd. | 2 | - |
| SaiClo Pty. Ltd. | 2 | - |
| Saibos Construçoes Maritimas Lda | 1 | - |
| SASP Offshore Engineering S.p.A. | 1 | - |
| **Total** | **19** | **16** |

## Parent companies

This caption amounts to 71 million euros at 31st of December 2000, an increase of 49 million euros in respect of 31st of December 1999 and comprises receivables of a trading nature due from the Agip division of Eni S.p.A.

## Others

This caption totals 249 million euros at 31st of December 2000, a decrease of 1 million euros in respect of 31st of December 1999.

Other receivables due within one year amounted to 244 million euros (247 million euros at 31st of December 1999). They comprise amounts receivable from tax authorities of 75 million euros (73 million euros of 31st of December 1999), short-term financial receivables of 45 million euros (66 million euros at 31st of December 1999) and payments on account to suppliers of 39 million euros (11 million euros at 31st of December 1999). This caption also includes receivables due from insurance companies of 28 million euros (53 million euros at 31st of December 1999) for the reimbursement of costs and damages incurred.

Other receivables of 5 million euros (3 million euros at 31st of December 1999), due after one year, mainly relate to security deposits and tax advances on Employee's termination benefit made by the parent company and amounts receivable from social security institutions by a foreign subsidiary company.

Other receivables include 13 million euros due from other Eni Group companies.

## Cash and equivalents

Cash amounted to 126 million euros at 31st of December 2000, an increase of 39 million euros in respect of the previous year. It comprises temporary liquid funds directly correlated to bank overdrafts generated by treasury operations made at a Group level.

## PREPAYMENTS AND ACCRUED INCOME

These amount to 148 million euros at 31st of December 2000, an increase of 105 million euros in respect of the previous year and include the following items:

**- Accrued income**
Accrued income amounts to 2 million euros at 31st of December 2000, an increase of 1 million euros over the previous year.

**- Prepayments**
This caption amounts to 146 million euros at 31st of December 2000, an increase of 104 million euros in respect of the previous year. It mainly includes prepaid financial expenses and exchange rate differences on hedge contracts for exchange rate risks for long-term contracts of 91 million euros (22 million at 31st of December 1999) relative to the parent company and a foreign subsidiary. It also includes insurance premiums of 39 million euros (nil balance at 31st of December 1999) related to the parent company, costs to be incurred in future periods of 11 million euros (11 million euros at 31st of December 1999) and prepaid taxes of 1 million euros (1 million euros at 31st of December 1999).

Prepayments relating to Eni Group companies amount to 41 million euros.

## BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY

### SHAREHOLDERS' EQUITY

(Millions of euros)

| | 31st of December 1999 | **31st of December 2000** |
|---|---|---|
| Share capital | 227 | 227 |
| Share premium reserve | 291 | 291 |
| Revaluation reserve | 2 | 2 |
| Legal reserve | 22 | 23 |
| Other reserves: | | |
| – reserve for exchange rate differences | 57 | 50 |
| Retained earnings | 293 | 338 |
| Net income for the year | 69 | 80 |
| **Total** | **961** | **1,011** |

### Share capital

The share capital of Saipem S.p.A. amounts to 227 million euros, corresponding to 440,237,300 shares, of which: 439,689,282 are ordinary shares and 548,018 are savings shares.

### Share premium reserve

The reserve amounts to 291 million euros at 31st of December 2000, unchanged in respect of the previous year.

### Revaluation reserve

This reserve was set up by the parent company in accordance with Law no 413/91.

### Legal reserve

The legal reserve of Saipem S.p.A. represents the portion of profits accrued as per article 2430 of the Civil Code.

### Reserve for exchange rate differences

The reserve for exchange rate differences arises from the conversion into euros of the financial statements expressed in foreign currency of companies which operate independently of their parent company.

**Movements in consolidated shareholders' equity for the years ended 31st of December 1999 and 2000**

(Millions of euros)

| | Share capital | Share premium reserve | Reval. reserve | Legal reserve | Other reserves | Retained earnings | Net income for the year | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 31.12.1998** | **227** | **291** | **2** | **20** | **21** | **219** | **114** | **894** |
| Distributed dividends | - | - | - | - | - | - | (38) | (38) |
| Retained earnings for 1998 | - | - | - | 2 | - | 74 | (76) | - |
| Exchange differences | - | - | - | - | 36 | - | - | 36 |
| Net income for the year | - | - | - | - | - | - | 69 | 69 |
| **Balance at 31.12.1999** | **227** | **291** | **2** | **22** | **57** | **293** | **69** | **961** |
| Distributed dividends | - | - | - | - | - | - | (23) | (23) |
| Retained earnings for 1999 | - | - | - | 1 | - | 45 | (46) | - |
| Exchange differences | - | - | - | - | (7) | - | - | (7) |
| Net income for the year | - | - | - | - | - | - | 80 | 80 |
| **Balance at 31.12.2000** | **227** | **291** | **2** | **23** | **50** | **338** | **80** | **1,011** |

**Reconciliation of statutory net income and shareholders' equity to consolidated net income and shareholders' equity**

(Millions of euros)

| | 31st of December 1999 | | **31st of December 2000** | |
|---|---|---|---|---|
| | Shareholders' equity | Net income for the year | **Shareholders' equity** | **Net income for the year** |
| As reported in statutory financial statements | 614 | 20 | 635 | 44 |
| Difference between book value and shareholders' equity, including result for the year, of consolidated subsidiaries | 476 | 25 | 494 | 16 |
| Consolidation adjustments for: | | | | |
| - un-realized inter-company result elimination | (135) | 5 | (119) | 16 |
| - elimination of tax effects by nature | 4 | 5 | 6 | 2 |
| - other adjustments | 3 | 14 | (5) | 2 |
| **Total shareholders' equity** | **962** | **69** | **1,011** | **80** |
| Minority interests in capital and reserves | (1) | - | - | - |
| **Group shareholders' equity** | **961** | **69** | **1,011** | **80** |

## PROVISION FOR CONTINGENCIES

Provision for contingencies amounts to 49 million euros showing a decrease of 9 million euros in respect of the previous year.

The composition of the caption and movements are set out below:

(Millions of euros)

| | Severance pay and similar provisions | Income taxes | Other provisions for contingencies: Periodic maintenance | Contractual risks | Losses on long term contracts | Provision for other risks and changes | Provision for losses in associated and other companies | Provision for restructuring costs | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31.12.1998** | **5** | **10** | **14** | **4** | **10** | **14** | **-** | **2** | **3** | **62** |
| Movements: | | | | | | | | | | |
| Allocations | 3 | 2 | 9 | - | 2 | 7 | - | - | 2 | 25 |
| Utilizations | (2) | (1) | (9) | (4) | (9) | (3) | - | (2) | (2) | (32) |
| Exchange differences | - | - | - | - | - | - | - | - | - | - |
| Other variations | 1 | - | 1 | - | 3 | - | - | - | (2) | 3 |
| **Balance at 31.12.1999** | **7** | **11** | **15** | **-** | **6** | **18** | **-** | **-** | **1** | **58** |
| Movements: | | | | | | | | | | |
| Allocations | 2 | 5 | 12 | - | 1 | - | - | - | - | 20 |
| Utilizations | - | - | (13) | - | (3) | (14) | - | - | - | (30) |
| Exchange differences | - | - | - | - | - | - | - | - | - | - |
| Inclusion (exclusion) from the consolidation area | - | - | - | - | (2) | - | 3 | - | - | 1 |
| Other variations | - | - | - | - | - | - | - | - | - | - |
| **Balance at 31.12.2000** | **9** | **16** | **14** | **-** | **2** | **4** | **3** | **-** | **1** | **49** |

### Severance pay and similar provisions

The provision amounts to 9 million euros, an increase of 2 million euros in respect of the previous year. It relates to the amounts due on retirement to personnel employed in countries other than Italy, to whom different legislation applies.

### Income taxes

The provision amounts to 16 million euros, an increase of 5 million euros in respect of the previous year due to allocations of the year.

It comprises amounts provided for potential or existing disputes with local tax authorities based on objectively grounded risks considering local tax regulations.

### Other provision for contingencies

The provision amounts to 24 million euros, showing a decrease of 16 million euros in respect of the previous year and relates primarily to the following:

#### *Periodic maintenance*

The provision amounts to 14 million euros, showing a decrease of 1 million euros in respect of the previous year, due to the difference between the allocations and the utilizations made by the parent company and foreign subsidiaries, which own the vessels, in order to carry out planned cyclical maintenance thereon.

### *Losses on long-term contracts*

This caption amounts to 2 million euros, with a decrease of 4 million euros over the previous year. This decrease is due to its utilization for losses incurred during the year on contracts in the offshore and onshore construction sectors. At year end, the provision represents the best estimate of expected losses on contracts relating to these sectors.

### *Provision for other risks and charges*

This provision amounts to 4 million euros, a decrease of 14 million euros in respect of the previous year. This is due to the release of allocations made in previous years for alleged violations of foreign currency regulations, following the modifications to the relevant legislation. The allocations were taken to extraordinary income.

## EMPLOYEES' TERMINATION BENEFITS

This caption amounts to 23 million euros and shows a net increase of 1 million euros in respect of the previous year.

Variations in this caption have been set out below:

(Millions of euros)

| | Total |
|---|---|
| Opening balance | 22 |
| **Variations:** | |
| - allocations | 5 |
| - utilization | (4) |
| **Closing balance** | **23** |

## PAYABLES

Total payables amount to 1,408 million euros and show an increase of 150 million euros in respect of the previous year. The movements are shown in the table below:

(Millions of euros)

| | Opening balance | Movements in the year | | | Closing balance |
|---|---|---|---|---|---|
| | | Increases/ (repayments) | Exchange rate differences | Other variations | |
| Due to other financial institutions | 546 | 52 | 7 | - | 605 |
| Accounts payable to suppliers | 341 | 8 | 8 | (2) | 355 |
| Due to banks | 169 | (28) | 3 | - | 144 |
| Advances | 64 | 72 | - | - | 136 |
| Amounts payable to taxation authorities | 38 | (8) | - | - | 30 |
| Amounts payable to associated companies | 9 | (3) | - | - | 6 |
| Social security charges payable | 4 | 1 | - | - | 5 |
| Amounts payable to parent companies | 1 | 2 | - | - | 3 |
| Other amounts payable | 86 | 37 | 1 | - | 124 |
| **Total** | **1,258** | **133** | **19** | **(2)** | **1,408** |

There are no payables due after five years.

## Due to other financial institutions

This caption amounts to 605 million euros at 31st of December 2000 showing an increase of 59 million euros in respect of the previous year, mainly due to investments made during the year. It comprises loans granted to the parent company and foreign subsidiaries by Eni Group finance companies (536 million euros) and payables due to leasing companies for capital leases (31 million euros).
The balance also comprises payables due to Eni Group companies of 567 million euros.
Payables due after one year totaled 108 million euros (30 million euros at 31st of December 1998).
The overall debt of 749 million euro, consisting of the amount due to banks and other financial institutions, comprises short-term debts of 636 million euros (673 million euros at 31st of December 1999), granted at an average interest rate of 5.66% (4.8% in 1999) and amounts due after one year of 113 million euros (42 million euros at 31st of December 1999) granted at an average interest rate of 6.23% (4.3% in 1999).

## Accounts payable to suppliers

These amount to 355 million euros at 31st of December 2000 and show an increase of 14 million euros in respect of the previous year.
No accounts payable to suppliers are due after five years.
Payables due to Eni Group companies amount to 24 million euros.

## Due to banks

This caption amounts to 144 million euros at 31st of December 2000, a decrease of 25 million euros in respect of the previous year. Amounts due after one year amount to 5 million euros (12 million euros at 31st of December 1999).

Amounts due to banks secured by collateral amount to 58 million euros. They relate to a credit line, of which 56 million euros had been utilized at 31st of December 2000 by a foreign subsidiary and secured by a lien on the shares of the company as well as a loan granted to an Italian subsidiary secured with a special liens on the related tangible assets.

## Advances

This caption amounts to 136 million euros at 31st of December 2000 and showed an increase of 72 million euros in respect of the previous year. It relates to advance payments received, mainly by the parent company, for works yet to be performed relating to the Blue Stream project, as well as a foreign associated company in relation to an offshore construction project to be carried out in West Africa.

## Amounts payable to taxation authorities

The amount payable to taxation authorities amounts to 30 million euros at 31st of December 2000, showing a decrease of 8 million euros in respect of the previous year.
This caption mainly consists of amounts payable to local taxation authorities for income taxes (22 million euros), VAT (3 million euros) and withholding taxes (3 million euros).

## Amounts payable to associated companies

This caption amounts to 6 million euros at 31st of December 2000, a decrease of 3 million euros in respect of the previous year and relates to transactions of a trading and financial nature, summarized as follows:

(Millions of euros)

| | 31st of December 1999 | **31st of December 2000** |
|---|---|---|
| European Marine Contractors Ltd (non-consolidated portion) | 6 | 3 |
| Saibos Construções Maritimas Lda (non-consolidated portion) | - | 3 |
| SaiClo Pty Ltd (non-consolidated portion) | 3 | - |
| **Total** | **9** | **6** |

## Social security charges payable

This caption amounts to 5 million euros at 31st of December 2000, showing an increase of 1 million in respect of the previous year. It comprises social security contributions payable mainly by the parent company and Italian Group companies.

## Amounts payable to parent companies

This caption comprises amounts due to the Agip division of Eni S.p.A. by the parent company. It amounts to 3 million euros at 31st of December 200, an increase of 2 million euros in respect of the previous year.

## Other amounts payable

Other amounts payable amount to 124 million euros at 31st of December 2000, an increase of 38 million euros in respect of the previous year. They mainly comprise amounts payable to associated companies for advances made by other shareholders of jointly held and proportionately consolidated companies of 22 million euro (nil balance at 31 December 1999), payables due to joint ventures of 14 million euros (19 million euros at 31st of December 1999), personnel of 22 million euros (15 million euros at 31st of December 1999), the Cepav Uno and Cepav Due consortia of 6 million euros (14 million euros at 31st of December 1999), and insurance companies of 40 million euros (6 million euros at 31st of December 1999) and payables due to consultants and other professionals of 3 million euros (2 million euros at 31st of December 1999).

Other amounts payable to Eni Group companies amount to 52 million euros.

# ACCRUED EXPENSES AND DEFERRED INCOME

This caption amounts to 94 million euros at 31st of December 2000 showing an increase of 59 million euros in respect of the previous year and comprises:

## - Accrued expenses

These amount to 5 million euros at 31st of December 2000 and consist as follows:

(Millions of euros)

| | 31st of December 1999 | **31st of December 2000** |
|---|---|---|
| Interest expense on financing | - | 1 |
| Expenses for exchange rate hedging transactions | - | 4 |
| **Total** | **-** | **5** |

## - Deferred icome

This balance amounts to 89 million euros at 31st of December 2000 showing an increase of 54 million euros in respect of 31st of December 1999 and has been summarized as follows:

(Millions of euros)

| | 31st of December 1999 | **31st of December 2000** |
|---|---|---|
| Adjustments to revenues from long-term contracts in accordance with the accruals concept, made on the basis of the amounts contractually matured | 30 | 80 |
| Exchange rate hedging transactions | 3 | 8 |
| Insurance company premiums | 2 | - |
| Other | - | 1 |
| **Total** | **35** | **89** |

Deferrend income from Eni Group companies amounts to 200 million euros.

### GUARANTEES AND OTHER MEMORANDUM AND CONTINGENCY ACCOUNTS

This caption amounts to 2,940 million euros at 31st of December 2000 (1,759 million euros at 31st of December 1999).

### Guarantees

Guarantees amount to 1,549 million euros and may be summarized as follows:

(Millions of euros)

| | 31st of December 1999 | **31st of December 2000** |
|---|---|---|
| Guarantees granted on behalf of: | | |
| - subsidiary companies | 290 | 630 |
| - associated companies | 64 | 109 |
| - parent companies | 6 | 6 |
| - others | 17 | 7 |
| | **377** | **752** |
| - Guarantees granted by third parties in favour of the parent company | 507 | 797 |
| **Total** | **884** | **1,549** |

Such guarantees comprise:

- guarantees given on behalf of subsidiary and associated companies mainly connected with potential defaults in carrying out work obligations;

- guarantees given to third parties relating to guarantees issued by banks by order and on behalf of the parent company, for obligations arising from the participation in contract tenders, for the proper execution of work, for liens and for credit facilities.

Guarantees given by third parties on behalf of the parent company include 142 million euros relating to receivables factored with recourse.

### Collateral

This caption amounts to 59 million euros and consist of liens on the shares of a foreign subsidiary given to a bank to guarantee a credit line to carry out the investment plan for the year and 3 million euros related to the special liens on tangible assets, granted by an Italian subsidiary to a bank to guarantee financing received.

## Other memorandum and contingency accounts

This caption amounts to 1,332 million euros and refers to commitments on hedging contracts. Such commitments on derivative contracts may be summarized as follows:

(Millions of euros)

| | 31st of December 1999 | **31st of December 2000** |
|---|---|---|
| Purchase of foreign currency | 259 | 257 |
| Sale of foreign currency | 489 | 963 |
| **Total** | **748** | **1,220** |
| Options: | | |
| Sale of foreign currency | 44 | 103 |
| Purchase of foreign currency | - | 9 |
| **Total** | **44** | **112** |
| | **792** | **1,332** |

These derivative contracts are entered into in order to reduce the market risks exposure arising from exchange rate fluctuations of those currencies in which trading transactions are carried out. Thus, derivative contracts for dealing purposes are not held.

The amounts detailed by currency are as follows:

(Millions of euros)

| Valuta | Nominal value at 31.12.1999 | | **Nominal value at 31.12.2000** | |
|---|---|---|---|---|
| | Purchases | Sales | **Purchases** | **Sales** |
| US dollar | 153 | 524 | 209 | 1,053 |
| Euro | 15 | - | 28 | - |
| French franc | 1 | - | - | - |
| Italian lira | 55 | - | - | 5 |
| Pound sterling | - | 9 | - | - |
| Dutch guilder | 1 | - | - | - |
| Norwegian corona | 34 | - | 29 | 8 |
| **Total** | **259** | **533** | **266** | **1,066** |

The market value of the above contracts are the amounts estimated as payable or receivable if the contracts were to be settled at year end including, therefore, the unrealized income or losses on open contracts. In order to estimate the market value of the contracts, the stock market prices and appropriate pricing models have been used. The total theoretical net gains (losses) arising are as follows:

(Millions of euros)

| | 31st of December 1999 | **31st of December 2000** |
|---|---|---|
| Derivative contracts on currencies | | |
| - gains | 17 | 23 |
| - losses | (27) | (19) |
| **Total** | **(10)** | **4** |

Commitments relating to hedging contracts with Eni Group companies amount to 1,293 million euros (766 million euros at 31st of December 1999).

## Off-balance sheet commitments and contingencies

The parent company, for the benefit of its customers, is committed to fulfilling the contractual obligations entered into by subsidiary or associated companies where they fail to fulfill the contractual obligations themselves, as well to pay for any damages incurred as a result of any failure to meet those obligations.

These commitments guarantee the cover of contracts to a value of 2,459 million euros (1,941 million euros at 31st of December 1999).

# STATEMENT OF INCOME

## REVENUES

### Turnover

Turnover amounted to 1,370 million euros, a decrease of 110 million euros over the previous year.

A breakdown of the turnover by business segment is set out below:

| | | (Millions of euros) |
|---|---|---|
| | 1999 | **2000** |
| Offshore Construction | 781 | 652 |
| Offshore Drilling and Floating Production | 170 | 246 |
| Onshore Drilling | 96 | 129 |
| Onhore Construtcion | 431 | 343 |
| Infrastructure | 2 | - |
| **Total revenues** | **1,480** | **1,370** |

Turnover by geographical area is as follows:

| | 1999 | | **2000** | |
|---|---|---|---|---|
| Geographical area (*) | Million of euros | % | **Millions of euros** | **%** |
| Italy | 112 | 7.6 | 182 | 13.3 |
| North Sea | 311 | 21.0 | 247 | 18.0 |
| Rest of Europe | 36 | 2.4 | 222 | 16.2 |
| Africa | 356 | 24.0 | 297 | 21.7 |
| Middle East | 219 | 14.8 | 111 | 8.1 |
| Far East | 182 | 12.3 | 93 | 6.8 |
| Rest of Asia | - | - | 40 | 2.9 |
| Americas | 264 | 17.9 | 178 | 13.0 |
| **Total** | **1,480** | **100** | **1,370** | **100** |

(*) Based on final destination of the services

Revenues from Eni Group companies amounted to 117 million euros (147 million euros in 1999) and from Agip division of Eni S.p.A. to approximately 181 million euros (79 million euros in 1999).

### Variation in contract work in progress

Comments on the negative variation of 60 million euros, relating to Offshore and Onshore Construction contracts, are disclosed in the note to "inventories".

### Increase in internal work capitalized under fixed assets

This caption relates to the capitalization of costs for internal work incurred during the year. It amounts to 30 million euros and mainly relates to increases in tangible assets.

## Other revenues and income

Other revenues and income amount to 21 million euros, unchanged with respect to the previous year, and may be analyzed as follows:

(Millions of euros)

| | 1999 | 2000 |
|---|---|---|
| - Others: | | |
| - Income on transaction with personnel | 3 | 5 |
| - Compensation for damages | 3 | 4 |
| - Release of provision for contingencies | 3 | 3 |
| - Gains on sale of tangible fixed assets | 3 | 3 |
| - Release of provision for write-downs | 3 | 1 |
| - Other revenues from Eni Group companies | 2 | 1 |
| - Income relating to trading transactions | 1 | 1 |
| - Other operating revenues | 3 | 3 |
| **Total** | **21** | **21** |

The release of the provision for contingencies arises as a result of the fact that the risks provided for in previous years did not occur.

OPERATING EXPENSES

## Raw materials, consumables and supplies

This caption amounts to 218 million euros, a decrease of 56 million euros over the previous year. It comprises costs for the purchase of raw and other materials used in operations as well as consumables and supplies.

Costs for raw materials, consumables and supplies purchased from Eni Group companies amount to 12 million euros.

## Services

Services amount to 448 million euros, a decrease of 125 million euros over the previous year.

Such costs relate to sub-contracting, design and management work, insurance, transport, consultancy and technical services, maintenance, postal and telegraphic services, personnel and other general services.
They include 5 million euros (unchanged from 1999) for commercial brokerage fees.

Costs for services provided by Eni Group companies amount to 43 million euros and can be summarized as follows: costs of design and engineering, 4 million euros; insurance premiums relating to assets involved in operating activities and personnel insurance, 21 million euros; general services (office management, maintenance and security costs, telecommunications, aircraft services, IT costs) 4 million euros and professional and technical training and implementation of new processes and information technology systems, 14 million euros.

## Use of third party assets

Costs for the use of third party assets amount to 122 million euros showing a decrease of 6 million euros over the previous year.

These costs comprise installments for the lease and rental of vessels, motor vehicles, land and buildings and aircraft, as well as costs for licenses and industrial patents.

Costs for the use of third party assets due to Eni Group companies amount to 4 million euros.

## Payroll and related costs

This items amounts to 290 million euros and includes wages and salaries, employees' termination benefits, vacations accrued but not yet taken and social security contributions in accordance with current national labor contracts and legislation.
The allocation made to employee termination benefits includes the revaluation of the provision at 31st of December 1999 and has been calculated on the basis of the cost of living index (ISTAT), and the amounts maturing to the benefit of the employee during the year
Other personnel costs amount to 16 million euros (25 million euros in 1999) and relate to canteen services, building yard logistics services, transport and other similar costs.

The average number, by category, of employees of all the consolidated companies is as follows:

| | Personnel at 31st of December 1999 | **Personnel at 31st of December 2000** | Average work-force 2000 (*) |
|---|---|---|---|
| - Managers | 100 | 103 | 100 |
| - Junior management | 340 | 354 | 344 |
| - White collar | 2,431 | 2,507 | 2,548 |
| - Blue collar | 6,406 | 6,333 | 6,473 |
| - Seamen | 327 | 292 | 302 |
| **Total** | **9,604** | **9,589** | **9,767** |

(*) average of monthly average figures.

Data is shown below for the employees of companies consolidated using the proportionate method, in accordance with article 37 of Legislative decree No. 127 of 9th of April 1991. These have been included in the above table at 50%.

(Data shown at 100%):

| | Personnel at 31st of December 1999 | **Personnel at 31st of December 2000** | Average work-force 2000 (*) |
|---|---|---|---|
| - Managers | 12 | 9 | 10 |
| - Junior management | 70 | 73 | 73 |
| - White collar | 331 | 299 | 299 |
| - Blue collar | 125 | 127 | 110 |
| - Seamen | 84 | 78 | 71 |
| **Total** | **622** | **586** | **563** |

(*) average of monthly average figures.

## Amortization, depreciation and write-downs

This item amounts to 137 million euros, an increase of 37 million euros over the previous year.
It includes the charge for the year related to the year of amortization of intangible assets and the depreciation of tangible assets (132 million euros), the write-downs of tangible assets (4 million euros) and the write-downs of receivables included under current assets (1 million euros).

An analysis of amortization, depreciation and write-downs is provided in the notes to intangible and tangible assets, and accounts receivable included under current assets.

## Variations in raw materials, supplies and consumables

This expenditure mainly comprises the change in spare parts and consumables for internal use rather than for resale, and showed a balance of 9 million euros at 31st of December 2000.

Further information is given in the note to inventories.

## Other provisions

Other provisions totalled 13 million euros (unchanged from 1999) and include allocations made to "Provision for contingencies - other". The increase includes the allocation for the planned cyclical maintenance of vessels of 12 million euro, and the allocation made in relation to estimated losses on contracts of the Onshore and Offshore Construction sector, which were in progress at year end, for 1 million euros.

## Other operating costs

These amount to 9 million euros, a decrease of 6 million euros in respect of the previous year and have been summarized as follows:

(Millions of euros)

| | 1999 | 2000 |
|---|---|---|
| Taxation and customs duties | 10 | 6 |
| Charges on trading transactions | 1 | 1 |
| Losses from the disposal and elimination of intangible and tangible assets | 3 | - |
| Other operating costs | 1 | 2 |
| **Total** | **15** | **9** |

FINANCIAL INCOME AND EXPENSE

## Income from investments

Income from investments amounts to 11 million euros, an increase of 10 million euros in respect of the previous year. It relates to the adjustment to the sales price of an investment sold in previous years (8 million euros) and dividends received during the year by a foreign subsidiary (3 million euros).

## Other financial income

Other financial income amounts to 80 million euros, a decrease of 22 million euros in respect of the previous year and comprises:

(Millions of euros)

| | 1999 | 2000 |
|---|---|---|
| Exchange rate gains | 93 | 62 |
| Premiums on hedging contracts for exchange rate risks | 1 | 5 |
| Interest income from Eni Group financing companies | - | 2 |
| Interest income on tax credits | - | 1 |
| Interest from associated companies | 1 | 1 |
| Interest income on bank deposits and current accounts | 3 | - |
| Other | 4 | 9 |
| **Total** | **102** | **80** |

The above amounts include income of 3 million euros from Eni Group companies.

Variations in exchange rates, which took place after the year-end, showed a net positive effect.

### Interest and other financial expenses

This caption amounts to 119 million euros with an increase of 5 million euros in respect of the previous year and is summarized as follows:

(Millions of euros)

| | 1999 | **2000** |
|---|---|---|
| Exchange rate losses | 86 | 56 |
| Interest on sums due to Eni Group financing companies | 10 | 42 |
| Expenses on contracts for the hedging of exchange risks | 11 | 12 |
| Interest expenses on payables to others | 6 | 7 |
| Other financial expenses | 1 | 2 |
| **Total** | **114** | **119** |

The above figures include charges from Eni Group companies totalling 48 million euros.

## EXTRAORDINARY INCOME AND EXPENSES

### Income

Extraordinary income amounts to 24 million euros and includes the gain realised on the sale of the investment in “Consorzio CEPAV 1” of 10 million euros and the parent company’s release of the excess provision for contingencies set up in previous years for alleged violations of foreign currency regulations of 14 million euros.

### Expenses

Expenses amount to 24 million euros and mainly include expense incurred by the parent company for leaving incentives of 11 million euros, financial expense of 8 million euros accrued on advances given in previous years by “Consorzio CEPAV 1”, costs incurred in relation to procedures for potential acquisitions of 2 million euros, legal and professional expenses incurred for procedures not related to the group’s ordinary operations and to the loss (of 1 million euros) arising on the sale of the Italian onshore construction business unit.

## INCOME TAXES

Income taxes amount to 25 million euros, an increase of 4 million euros over the previous year. It mainly relates to IRAP (tax on regional production activity) and taxes paid abroad and includes the variations in existing provisions, and credit and debit positions with local tax authorities.

SEGMENT INFORMATION

**Operating revenues, contribution from operations, tangible and intangible assets, capital expenditure and depreciation and amortization by segment**

| | Offshore Construction | Offshore Drilling and Floating | Onshore Drilling | Onshore Construction | Infrastructure and Head office | Total |
|---|---|---|---|---|---|---|
| **1999** | | | | | | |
| Operating revenues | 781 | 170 | 96 | 431 | 2 | 1,480 |
| Contribution from operations | 96 | 40 | 10 | 29 | - | 175 |
| Tangible and intangible assets | 526 | 571 | 61 | 68 | 29 | 1,255 |
| Capital expenditure | 160 | 220 | 9 | 7 | 16 | 412 |
| Depreciation, amortization and write-downs | 38 | 36 | 6 | 13 | 7 | 100 |
| **2000** | | | | | | |
| Operating revenues | 652 | 246 | 129 | 343 | - | 1,370 |
| Contribution from operations | 88 | 74 | 22 | 16 | - | 200 |
| Tangible and intangible assets | 551 | 660 | 62 | 62 | 35 | 1,370 |
| Capital expenditure | 73 | 127 | 14 | 4 | 13 | 231 |
| Depreciation, amortization and write-downs | 62 | 42 | 12 | 13 | 7 | 136 |

Detailed information relating to the above has been disclosed in the appropriate section of the Report of the Directors.

## Related party transactions

Reference should be made to the Report of the Directors.

## Saipem S.p.A. Directors', Statutory Auditors' and CEO's emoluments

Emoluments made to the Saipem S.p.A. Board of Directors for 1999 and 2000 amounted to 834 thousand euros and 667 thousand euros, respectively. Emoluments made to the Saipem S.p.A. Board of Statutory Auditors for 1999 and 2000 amounted to 72 thousand euros for each year. The emoluments paid to CEOs amounted to 252 thousand euros and 375 thousand euros for 1999 and 2000, respectively.
The above fees comprise ordinary emoluments, non monetary fringe benefits, bonuses and other incentives, attendance fees, out-of-pocket expenses reimbursed as a lump sum and emoluments recognized for similar duties in other consolidated companies. For those directors entrusted with specific powers and who are employees of the company or another Eni Group company, the emoluments also comprise a normal salary. Moreover, in the case of termination of employment, the emoluments may comprise additional amounts in excess of the termination indemnity.
The above compensation refers to those emoluments, which are subject to taxation, in accordance with personal tax regulations.

# RECLASSIFIED CONSOLIDATED BALANCE SHEET

(Millions of euros)

| | 31st of December 1999 | | **31st of December 2000** | |
|---|---|---|---|---|
| Net tangible fixed asset | 1,223 | | 1,338 | |
| Net Intangible fixed assets | 32 | | 32 | |
| Tangible and intangible assets, net | 1,255 | | 1,370 | |
| - Offshore construction | | 526 | | 551 |
| - Offshore Drilling and Floating Production | | 571 | | 660 |
| - Onshore Drilling | | 61 | | 62 |
| - Onshore Construction | | 68 | | 62 |
| - Others | | 29 | | 35 |
| Financial investments | 5 | | 5 | |
| **Non-current assets (a)** | | **1,260** | | **1,375** |
| Inventories | 184 | | 133 | |
| Other current assets | 738 | | 888 | |
| Current liabilities | (574) | | (733) | |
| Provision for contingencies and other changes | (58) | | (49) | |
| **Net current assets (b)** | | **290** | | **239** |
| **Employees' termination benefits (c)** | | **(22)** | | **(23)** |
| **Capital employed (d=a+b-c)** | | **1,528** | | **1,591** |
| **Group shareholders' equity (e)** | | **961** | | **1,011** |
| **Minority interests in net equity (f)** | | **1** | | **-** |
| Net financial debt – medium and long-term | 42 | | 113 | |
| Net financial debt – short-term | 524 | | 467 | |
| **Net debt (g)** | | **566** | | **580** |
| **Cover (h = e + f + g)** | | **1,528** | | **1,591** |

# RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(Millions of euros)

| | 1999 | 2000 |
|---|---|---|
| **BY NATURE OF COST** | | |
| **Operating revenues** | **1,467** | **1,310** |
| Other income and revenues | 18 | 16 |
| Purchases, services and other costs | (978) | (776) |
| Payroll and related costs | (302) | (281) |
| **Gross operating income (a)** | **205** | **269** |
| Amortization, depreciation and write-downs (b) | (100) | (136) |
| **Operating income (c=a-b)** | **105** | **133** |
| Financial expenses, net (d) | (12) | (39) |
| Income from investments, net (e) | 1 | 11 |
| **Income from ordinary activities (f=c-d+e)** | **94** | **105** |
| Extraordinary expenses, net (g) | (4) | - |
| **Net income for the year (h=f-g)** | **90** | **105** |
| Income taxes (i) | (21) | (25) |
| **Income before minority interests (l=h-i)** | **69** | **80** |
| Income for the year attributable to third parties (m) | - | - |
| **Group net income for the year (n=l-m)** | **69** | **80** |

# RECLASSIFIED CONSOLIDATED INCOME STATEMENT



(Millions of euros)

| | 1999 | 2000 |
|---|---|---|
| **BY DESTINATION OF COST** | | |
| **Operating revenues** | **1,467** | **1,310** |
| Production costs | (1,238) | (1,051) |
| Idle costs | (38) | (40) |
| Selling expenses | (16) | (20) |
| Research and development expenses | (3) | (1) |
| Other operating income, net | 3 | 2 |
| **Contribution from operations** | **175** | **200** |
| General and administrative expenseses | (70) | (67) |
| **Operating income** | **105** | **133** |
| Financial expenses, net | (12) | (39) |
| Income from investments, net | 1 | 11 |
| **Income from ordinary activities** | **94** | **105** |
| **Extraordinary expenses, net** | **(4)** | **-** |
| **Income before income taxes** | **90** | **105** |
| Income taxes | (21) | (25) |
| **Net income for the year** | **69** | **80** |
| Income for the year attributable to third parties | - | - |
| **Group net income for the year** | **69** | **80** |

# INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

KPMG

Revisione e organizzazione contabile

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**(Translation from the Italian original which remains the definitive version)**

## Report of the auditors in accordance with article 156 of legislative decree no. 58 of 24 February 1998

To the shareholders of
Saipem S.p.A.

1 We have audited the consolidated financial statements of Saipem group as at and for the year ended 31 December 2000. These financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of certain subsidiaries and associated companies representing 10% and 18% of consolidated assets and consolidated revenues respectively, have been audited by other auditors who provided us with their reports thereon. Our opinion, expressed herein, with respect to the figures relating to such companies included in the consolidated financial statements is based, inter alia, on the audits performed by the other auditors.

Reference should be made to the report dated 10 April 2000 for our opinion on the prior year figures which are presented for comparative purposes as required by law.

3 In our opinion, the consolidated financial statements of Saipem group as at and for the year ended 31 December 2000 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position and results of the group.

Milan, 11 April 2001

KPMG S.p.A.

(Signed on the original)

Flavio Zappettini
*Director of Audit*

# RESOLUTION APPROVED AT THE ANNUAL SHAREHOLDERS' MEETING



The Shareholders' Ordinary and Extraordinary Meetings held on 4th of May, 2001, in second calling, approved the following resolutions:

**Ordinary Meeting**

1) to approve the financial Statements as of 31st of December, 2000 and to allocate the net income for the year of 43,706,793 euros (Lire 84,628,151,815) as follows:
   - Allocation to the legal reserve of 2,185,339.65 euros (Lire 4,231,407,590);
   - Allocation to the reserve for future share issues in accordance with Article No. 2349 of the Italian Civil Code of 206,582.76 euros (Lire 400,000,000) relative to the management incentives scheme for the year 2000.
   - A further allocation to reserve for future share issues in accordance with Article No. 2349 of the Italian Civil Code of 294,961.29 euros (Lire 571,124,700) relative to the increase in the nominal value of the Company's share capital to 1 euro per share;
   - Distribution of a dividend totalling 27,292,121.78 euros (Lire 52,844,916,540), to be paid as from 24th May 2001, as follows:
     - Lire 120 for each of the No. 439,689,282 ordinary shares Lire 52,762,713,840
     - Lire 150 for each of the No. 548,018 savings shares Lire 82,202,700
   - Allocation to retained earnings of 13,727,787.52 euros (Lire 26,580,702,985).

2) To appoint the audit firm Reconta Ernst & Young S.p.A. as independent auditors for the three-year period 2001-2003, setting their annual fees at a total of 330,000 euros..

3) To nominate Dott. Luigi Braito as alternate statutory auditor.

**Extraordinary Meeting**

1) to re-denominate the Company's share capital into euros by means of :

   - the increase in the legal reserve from Lire 48,711,645,925 up to one fifth of the value of share capital, therefore up to Lire 88,047,460,000, by means of a transfer of Lire 39,335,814,075 from share premium reserve;
   - the bonus increase in the nominal value of the Company's ordinary and savings shares from Lire 1,000 to Lire 1,936.27 by means of:
     - the utilisation of the entire balance of the reserve for gains on mergers of Lire 673,876,024
     - the utilisation of the reserve for Art. No. 33 of Law No. 413 of 30.12.1991 for Lire 4,210,800,000
     - the partial utilisation of the share premium reserve for Lire 407,296,300,847
   - the determining of the nominal value of each ordinary and savings share at 1 euro per share and the subsequent re-denomination of the Company's share capital into 440,237,300 euros.

2) To modify the maximum amount of the authority conferred on the Board of Directors by the Extraordinary Shareholders' Meeting of 21.9.2000 to increase the Company's share capital in accordance with Article No. 2349 of the Italian Civil Code and with the second and third paragraphs of Article No. 134 of Law No. 58/1998 (incentives schemes) to 900,000 euros, following the increase in the nominal value of Saipem S.p.A.'s ordinary and savings shares from Lire 1,000 to Lire 1,936.27 and their re-denomination into 1 euro .

Saipem

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FINANCIAL REPORT 2000

Saipem